SEFO

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Spain and Europe: Policy considerations in 2024

funcas

WHAT MATTERS

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Letter from the Editors

The international context is currently characterized by the impact of the monetary policy tightening cycle and uncertainty as a result of geopolitical tensions. The challenges caused by shipping disruptions in the Red Sea are once again raising concerns over supply chain disruptions and inflation. Indeed, they are already making freight rates considerably more expensive, particularly impacting the European economy. Another weakness for the global economy is the adjustment in China as a result of private debt overhang. While the situation in China is not new, the risks are perceived to be getting worse. By contrast, the US economy is remaining resilient to the impact of interest rate hikes thus far.

Broadly speaking, recent indicators reflect continued global sluggishness. As an example, the December purchasing managers' index (global PMI) was slightly above the threshold of 50, consistent with slow growth in the world economy. In the case of the eurozone, the indicator remains in a contractionary phase (of the four major European countries, only Spain is above the 50 threshold).

Within this context, in the January issue of *Spanish and International Economic & Financial Outlook (SEFO),* we first look at the recent agreement on Europe's new macropolicy framework and the implications for fiscal adjustment and monetary policy. The Spanish Presidency of the Council of the European Union (EU) announced the Council's agreement on a new framework for macroeconomic policy coordination on 21 December 2023. The agreement marks the culmination of a pan-European debate over macroeconomic policy and fiscal adjustment that started during the pandemic, as governments took stock of the role of macroeconomic policy coordination in shielding Europe's economies from the full impact of restrictive measures imposed to fight the spread of COVID-19. The new framework places emphasis on the need for national ownership over efforts at fiscal consolidation. It also builds on the recognition that the fiscal positions of member state governments are different from one country to the next. At the same time, it acknowledges that all EU member states should have incentives to invest in areas of common interest, including responding to climate change, fostering the digital and green transitions, and bolstering national defence. It also takes steps to simplify the design and the monitoring of fiscal consolidation measures to make them more credible and more transparent, which should bolster efforts to curtail macroeconomic imbalances and reduce unwanted volatility in financial markets.

Next, we examine some aspects of the Spanish economy – past and present. For instance, we take a look at the outlook for the Spanish economy over the medium-term in the context of uncertainty. Compared to its European peers, the Spanish economy has

weathered the inflationary storm and geopolitical tensions of recent years relatively well, buoyed by its strong competitive positioning. GDP growth is estimated at 2.4% in 2023, which is nearly two whole points above the eurozone average, with the current account surplus hitting an all-time high. In the near-term, however, a slowdown is anticipated in light of the weak external environment and contractionary turn in macroeconomic policy – both fiscal and monetary. We are forecasting GDP growth of 1.5% in 2024, which is nevertheless above the projection for the European average. Elsewhere, investment in capital goods remains 8.8% below pre-pandemic levels, a trend that does not bode well for productivity in the medium-term and poses a challenge in terms of maximizing the impact of the European funds on the Spanish economy. Lastly, the public deficit is set to remain above the thresholds required by Brussels, even if growth recovers as expected in 2025.

We then take a step back and assess how Spanish households' income, savings and wealth has evolved over the 21st century. Spanish households and their finances have undergone major transformation since the start of the century, from the time of Spain's inclusion in the eurozone. Taking a dual macro and micro perspective, an analysis of Spanish households over time, as well as relative to those of other large eurozone economies, reveals various major structural changes as regards the composition of the universe of Spanish households, and the main trends with respect to their income, savings, and wealth over the period. Indeed, driven in part by immigration, the number of Spanish households has increased in absolute terms as well as relative to the rest of Europe, meanwhile their average size has contracted, albeit remaining larger than the eurozone average. In parallel, there has been a widening of the wealth gap with respect to Europe, accompanied by a widening of the generational wealth gap in Spain, with households with the oldest heads having seen their income increase. In contrast, an area where there has been little change is households' scant propensity to save, remaining low and highly volatile compared to the levels in other eurozone economies. Nevertheless, this has not prevented Spanish households from accumulating wealth on equivalent or higher levels relative to neighbouring countries, a trend plausibly explained by Spanish households' propensity to invest in the real estate market, and which is once again adding cost pressures for younger households. These changes should be taken into consideration to ensure proper public policy design.

As discussed in the previous article, investment in Spain's housing market has always been a relevant phenomenon for the country's economy and wealth formation, not just by Spanish households but also by non-residents and wholesale investors. We explore this issue up close in the next article which focuses on a current snapshot of Spain's housing and mortgage markets. Despite an adverse economic climate, house price growth is proving resilient in Spain, fuelled by wholesale and non-resident demand, in addition to retail, residential demand. Indeed, just 38.9% of house sales are completed with mortgages. Although the data do not enable comprehensive identification of the underlying reasons, a number of circumstantial factors may be affecting these metrics, including a higher incidence of mortgage-less purchases in touristic areas and in inland Spain, whether by foreign buyers or as second homes. At any rate, the clearest interpretation of this phenomenon is that overall market volumes are largely being shaped by investment transactions, which are driving up prices. As for mortgage activity, in the aftermath of the pandemic, volumes started to rise again, at year-on-year rates of around 1%. Since December 2022, however, volumes have been contracting, by 3.1% year-on-year in October 2023 , the last month for which this information is available. Spain has yet to find a point of equilibrium in the mortgage market between the heady rates of the financial and property bubble and those corresponding to a more normal monetary environment. These dynamics have eroded Spain's affordability metrics, particularly since the financial crisis and pandemic, when prices recovered swiftly, outpacing wage growth.

Factors such as inadequate long-term land policies and growth in demand have exacerbated the problem, increasing inequality between home-owners and those unable to get a foothold on the housing ladder. Focusing resources on enhancing access to affordable, quality housing, fostering an efficient rental market –without interventions that ultimately inflate rents– and increasing housing supply (including more public housing options) could help to curb this trend and facilitate more equitable access to housing.

We then shift our focus to the financial sector, exploring the situation of the market for contingent convertible bonds, or CoCos, which suffered a rout, but have since recovered. CoCos, which are additional tier 1 (AT1) instruments, have been the instrument of choice for European and Spanish banks looking to reinforce their capital since the financial crisis and, more importantly, the cornerstone of the bank resolution mechanism insofar as they constitute loss absorbing instruments in the event of resolution. As a result, the market for CoCos has emerged as a very important barometer, as or more important than the market for banks' shares, for measuring confidence in the banking system. That is why this market suffered a rout during the banking crisis of last March and was hit particularly hard by how the Swiss authorities treated Credit Suisse's CoCo creditors, creating "stigma" around the instrument in general. The way CoCos were bailed in when Credit Suisse was rescued created a stigma that prompted the global CoCo market to collapse. Nonetheless, the market has recovered in recent months, marked by a significant rebound in prices and, above all, in issuance activity.

The next section of this months' *SEFO* looks at bigger picture policy issues, such as industrial and competition policy, as well as monetary authorities' approach to climate policy in recent times. To being with, we analyze EU industrial policy and how it should factor in competition policy in order to achieve maximum benefits for the bloc. Economists have traditionally been skeptical over the use of industrial policy. However, tech progress, climate change and geopolitical tensions have once again placed industrial policy at the center of the political debate. Without taking a position in favor or against industrial policy, it is important to note that, if public sector intervention is indeed necessary, it should be done respecting competition policy and innovation, not least within the EU, where there is added pressure to execute NextGenEU. To achieve sustainable economic development and minimize negative impacts on the market, industrial policy should be limited to situations in which a market failure is identified and implemented through competitively neutral mechanisms, without discrimination regarding sectors, companies or technologies.

Given the importance of industry to European countries, and in particular Spain, we provide a comparative analysis of the investment in intangibles, a key variable underpinning competitiveness, within Spain compared to the rest of the EU. The EU and Spanish governments' strategic commitment to reindustrialisation, setting the target of having 20% of GDP come from manufacturing, requires increased competitiveness and, by extension, further progress on digital transformation. Digitalisation is underpinned by investment in intangible assets such as R&D, software, branding, design, employee training and organisational capital. In Spain, the intensity of the manufacturing sector's investment in intangible assets is practically half of the European average (10.7% *vs.* 20% of GVA), a worrying trait that is repeated all across the various areas of manufacturing activity. In addition, at least since the financial crisis of 2008, the gap in investment intensity separating Spain from the EU has widened. As a result, if the Spanish manufacturing industry is to gain competitiveness at the international level, it must commit strongly to digitalisation, which requires closing the gap in investment intensity in intangibles relative to its competitors. In that context, the NGEU funds, whose aims include digitalisation, with specific financing for several strategic investment plans within the industrial sector, are a major opportunity.

Finally, we close this issue with a recap of how the main central banks have been addressing climate change policy, looking at the differences across the approaches of the Fed, the ECB and the BoE, which could provide some insights into what we could expect from these institutions going forward. While it is widely acknowledged that climate policy-making is the prime responsibility of governments, central banks are also taking steps to address climate change within their remits. An examination of the integration of climate change considerations into the operations of the European Central Bank (ECB), the Bank of England (BoE), and the Federal Reserve (Fed) highlights that both the ECB and the BoE are more proactive than the Fed in their commitments and policy measures to tackle climate risks. Notably, the BoE has pioneered several initiatives in the last few years, while the ECB has recently made more significant advancements in other areas related to supervision and collateral rules. The extent to which central banks integrate climate risks into their work varies depending on each institution's respective mandate and domestic political preferences *vis-à-vis* climate change.

What´s Ahead (Next Month)

Month	Day	Indicator / Event
February	1	Special European Council
	2	Social Security registrants and official unemployment (January)
	2	Tourist arrivals (December)
	7	Industrial production index (December)
	15	CPI (January)
	19	Foreign trade report (December)
	23	Eurogroup meeting
	29	Balance of payments monthly (December)
	29	Preliminary CPI (February)
March	4	Social Security registrants and official unemployment (February)
	4	Tourist arrivals (January)
	7	ECB monetary policy meeting
	8	Industrial production index (January)
	11	Retail trade (January)
	11	Eurogroup meeting
	14	CPI (February)
	18	Foreign trade report (January)
	21-22	European Council
	22	Balance of payments quarterly (4^{th}. quarter)
	26	Quarterly National Accounts (4^{th}., 2^{nd} estimate)
	27	Retail trade (February)
	27	Preliminary CPI (March)
	27	Institutional Sectors Non-financial quarterly accounts (4^{th}. quarter)
	27	Non-financial accounts, State (Dec., Jan. and Feb.)
	27	Non-financial accounts: Central Government, Regional Governments and Social Security (Dec. and Jan.)
	27	Non-financial accounts, Total Government (4^{th}. quarter)
	27	Balance of payments monthly (January)

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What Matters

Regulation and Economic Outlook

Key Facts

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MACROPOLICY FRAMEWORK

Europe's new regime for macroeconomic policy coordination: A first look

In the last days of its rotating presidency, the Spanish government successfully led negotiations in the Council of the European Union to agreement on a new regime for macroeconomic policy coordination. Once agreed by the European Parliament, the new framework will significantly increase national ownership of fiscal consolidation, while at the same time easing the path of adjustment in comparison with the framework it replaces.

Erik Jones

Abstract: The Spanish Presidency of the Council of the European Union (EU) announced the Council's agreement on a new framework for macroeconomic policy coordination on 21 December 2023. The agreement marks the culmination of a pan-European debate over macroeconomic policy and fiscal adjustment that started during the pandemic, as governments took stock of the role of macroeconomic policy coordination in shielding Europe's economies from the full impact of restrictive measures imposed to fight the spread of COVID-19. The new framework places emphasis on the need for national ownership over efforts at fiscal consolidation. It also builds on the recognition that the fiscal positions of member state governments are different from one country to the next. At the same time, it acknowledges that all EU member states should have incentives to invest in areas of common interest, including responding to climate change, fostering the digital and green transitions, and bolstering national defence. It also takes steps to simplify the design and the monitoring of fiscal consolidation measures to make them more

credible and more transparent, which should bolster efforts to curtail macroeconomic imbalances and reduce unwanted volatility in financial markets.

Background

This agreement marks the culmination of a three-year debate over macroeconomic policy coordination and fiscal consolidation that started during the pandemic. The European Commission triggered the general escape clause under the existing macroeconomic governance framework –called the Stability and Growth Pact– in March 2020 to give member state governments greater flexibility in responding to the impact of restrictive measures needed to contain the spread of COVID-19. As those responses to the pandemic pushed up public deficits and debts, national governments across Europe began to worry about whether they would be able to meet the requirements for fiscal consolidation under the existing rules once the general escape clause was deactivated (Jones, 2021).

Member state governments also worried that excessive efforts at fiscal consolidation would slow down any recovery from the pandemic and might even tip Europe's economy into a recession. The fact that any fiscal consolidation would necessarily coincide with a tightening of monetary policy and a shrinking of the combined balance sheet of the European System of Central Banks heightened the risks for macroeconomic performance (Jones, 2022).

Russia's full-scale invasion of Ukraine added further complications by pushing up inflation on the back of rising food and energy prices that required national governments to spend additional funds to reduce the impact of higher prices on domestic households and industries. The faster pace of inflation did help reduce outstanding levels of public debt by raising the value of gross domestic product, but higher expenditures associated with short-term price-supports and longer-term efforts to enhance energy security and to accelerate the green transition pushed in the opposite direction. For some member states, a major fiscal consolidation effort could not be avoided (Jones, 2023).

The Spanish and Dutch governments published a joint paper in April 2022 insisting that the time had come for the European Union to adopt a more flexible and credible framework for macroeconomic policy coordination. [1] Their partnership drew attention because the two governments traditionally –and self-admittedly– took different sides of the fiscal consolidation debate. [2] That joint paper served as inspiration for a European Commission proposal made in April 2023 (European Commission, 2023). When the Spanish government took up the rotating presidency of the Council of the European Union in July, it knew that it would need to finish any negotiations by December. The Council had already decided to deactivate the general escape clause of the Stability and Growth Pact at the end of the year.

The negotiations were complicated because of domestic political considerations in several major countries – including Spain and the Netherlands (Tama, 2023). They also had to consider significant technical critiques of the European Commission's proposal (see, *e.g.*, Darvas, Welslau and Zettelmeyer, 2023). More fundamentally, the Spanish Presidency needed to address divisions among the

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member states about the trade-off between having common rules for all countries with clear European oversight and allowing a differentiated approach with greater national ownership. The agreement reached on 21 December strikes a delicate balance. The next step is to win the support of the European Parliament.

Overview

The agreement consists of three documents, the most important of which is a proposal for a new "preventative arm" for the Stability and Growth Pact – meaning a procedure to help member states avoid running unsustainable fiscal policies. Establishing such a procedure would require a regulation of the European Parliament and of the Council. This is the document that representatives of the Council must negotiate with the European Parliament and so it takes the form of a "negotiating mandate" (Council of the EU, 2023a). The other two documents relate to an amendment to the "corrective arm" of the Stability and Growth Pact, the "excessive deficits procedure" for dealing with member states whose fiscal position is already considered to be unsustainable (Council of the EU, 2023b), and an amendment to the requirements for the budgetary frameworks of the member states (Council of the EU, 2023c). These documents have been agreed in the Council and only need to be brought to the European Parliament for consultation. Nevertheless, the three documents repeat many of the same instruments, safeguards, and specific terminology, which means any change in the first document through negotiations with the European Parliament could have implications for the language in the other two.

The new "preventative arm" contains the most innovative elements in the agreement. Many of these innovations are found in details that are more meaningful to experts in macroeconomic policy coordination than to a wider audience. The decision to limit activation of the general escape clause to one year, renewable, is one example. When they activated the general escape clause during the pandemic, they realized they did not have clear guidelines for when or how it should be deactivated (Jones, 2020). The same problem applied to the activation of country-specific escape clauses. The new framework shifts the burden onto any decision to extend the activation. Like many of the details in the new framework, that shift is important, but only for a limited audience. Nevertheless, four changes stand out as relevant for anyone interested in understanding the evolution of European fiscal policy.

First, the focus for policy coordination will rest on "net expenditure" which the proposed legislation defines as "government expenditure net of interest expenditure, discretionary revenue measures, expenditure programmes of the Union fully matched by revenue from Union funds, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures" (Council of the EU, 2023a: 18). Public debts and deficits are still useful as indicators of how well or how poorly a government is doing in managing its finances in broad terms and some safeguards trigger depending on the level or change in these variables, but "net expenditure" is the main indicator to watch in assessing the performance of government efforts at fiscal consolidation.

Second, any planning for fiscal consolidation will be "risk based and differentiated". The notion of risk-based planning refers to the central role given to the European Commission in doing a debt-sustainability analysis when generating a recommendation about the trajectory that member state governments should follow in the evolution of their "net expenditure" when their debts are higher than 60 percent of GDP or their deficits are higher than 3 percent of GDP. The differentiation reflects the fact that national governments can make their own plans on how to achieve that trajectory. The point to underscore is that any adjustments to public spending must be structural. Temporary or on-off measures like wind-fall taxes or asset sales do not change net expenditure under the definition. Those plans are supposed to extend over four or five years depending upon the usual life of the parliament and member states can ask to revise the plan when governments change after elections – subject to evaluation by the Commission.

> “The more financial market participants are able to understand, replicate, and agree on assessments of debt sustainability, the less likely they are to speculate against those national governments engaged in fiscal adjustments.”

Third, governments may extend the planning horizon to seven years if they commit to reforms or investments that –in the language of the proposal– will improve growth potential, support fiscal sustainability, address common EU priorities, incorporate relevant country-specific recommendations, and result in a higher level of public investment over the planning period than they showed over a similar period immediately prior. This extension lowers the average annual fiscal adjustment and so creates incentives for governments to avoid cutting public investment as part of their consolidation efforts and to double-down on efforts to promote common objectives. When those new investments are made, governments are even allowed to build the impact of those investments on fiscal consolidation or economic growth into their future plans.

Fourth, the proposal includes numerous requirements to enhance the transparency of the whole process by strengthening the European Fiscal Board, highlighting national planning assumptions, and openly debating the methodology used by the European Commission in its debt sustainability analysis, which has to be adopted by the Council. Once that methodology is agreed, the Commission will have to make its debt sustainability analysis publicly available together with the data and coding for replication. This emphasis on transparency should not only strengthen the credibility of any fiscal consolidation plans but also reduce unnecessary volatility in financial markets. The more financial market participants are able to understand, replicate, and agree on assessments of debt sustainability, the less likely they are to speculate against those national governments engaged in fiscal adjustments.

These elements feature in the amendments to the excessive deficits procedure and to the requirements for national budgetary frameworks in predictable ways – to focus attention on “net expenditure”, to incorporate the Commission’s debt sustainability analysis, to allow for greater national differentiation, to encourage productive public investments, and to enhance the transparency of the whole process. The three documents also connect this new framework to more structural efforts to ensure the sustainability of government finances through the Treaty on Stability, Coordination, and Governance in and Economic and Monetary Union that was signed in 2012– also known as the “fiscal compact” – and to broader concerns about addressing macroeconomic imbalances. In that sense, the agreement is not just about fiscal policy but also about the direction of macroeconomic policy coordination more generally.

Assessment

If it is formally adopted, the new framework should make the fiscal consolidation process more effective in two respects. Governments with initially high debt-to-GDP ratios will have lower fiscal adjustment requirements under the new rules than they would under the existing framework. The current rules require governments to reduce excessive public debts on an annual basis by 5 percent (or 1/20th) of the difference between their actual debt-to-GDP ratio and the reference value of 60 percent. For the governments in Greece and Italy, which have debt-to GDP ratios more than double the reference value, this represents a huge effort. Few if any governments have made such large fiscal adjustments over the kind of sustained period that the rules require. By contrast, the new framework requires less adjustment

> "The new framework encourages member states to continue consolidation measures until they arrive at a point where they are unlikely to confront problems with debt sustainability even during periods of poor macroeconomic performance."

on an annualized basis to meet the kind of net expenditure requirements to fit the existing debt sustainability analysis done by the Commission and the annualized effort is even lower when the planning horizon extends seven years (Darvas, Welslau and Zettelmeyer, 2023; Zettelmeyer, 2023). This lower level of effort is still significant, but it is also more realistic. And when paired with national ownership of the fiscal adjustment process, it is more likely to survive the domestic political opposition that is usually generated by austerity measures.

When a government's debt-to-GDP level is close to the reference value, the adjustment required under the new rules is greater than under the current regime. The effort required to meet a proportional rule like the one that currently exists diminishes as you approach the target; the effort required under a net expenditure rule like the one agreed in the Council does not. Instead, governments should progress in a linear fashion until the consolidation is sufficient to reduce the debt-to-GDP ratio below the 60 percent reference value and to contain the deficit-to-GDP ratio close to 1.5 percent – which is low enough to allow for governments to use fiscal policy in response to economic downturns without crossing above the 3 percent reference value. In this way, the new framework encourages member states to continue consolidation measures until they arrive at a point where they are unlikely to confront problems with debt sustainability even during periods of poor macroeconomic performance. Moreover, the new framework gives governments the opportunity to consult with the Commission about setting a sustainable trajectory for net expenditure when their debts and deficits are already below the reference values of 60 percent and 3 percent, respectively.

Whether the new framework creates effective incentives for public investment is an open question. The answer will vary on a case-by-case basis. The same question applies to defence spending. And it could also be asked in reference to the concession in the agreement to take the cost of debt servicing into account when looking at the adjustments required over the next three years because of the recent monetary tightening and resulting high interest rates. The reason for this uncertainty is that there is no strong correlation between high debts and high interest charges or low investment and defence spending. This data can be seen in Table 1, which sorts EU member states by debt-to-GDP ratios from high to low and provides data for net lending (which is the opposite of a deficit) together with expenditure on investment, interest payments, and defence.

Greece has a very high public debt, but it has a low deficit, a relatively high level of investment, and a very high level of defence spending – second only to Poland. By contrast, Italy has a lower debt but a higher deficit, a lower level of investment, and a lower level of defence

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Table 1

Public debt, deficits, and expenditures as a share of gross domestic product

Percentage

Country	Public Debt	Net Lending	Investment*	Interest	Defence
Greece	160.9	-2.3	4.0	3.5	3.0
Italy	139.8	-5.3	2.8	3.8	1.5
France	109.6	-4.8	3.9	1.7	1.9
Spain	107.5	-4.1	2.7	2.4	1.3
Belgium	106.3	-4.9	2.9	1.9	1.1
Portugal	103.4	0.8	2.7	2.0	1.5
Cyprus	78.4	2.3	3.1	1.4	2.0
Austria	76.3	-2.6	3.4	1.2	0.7
Finland	74.3	-2.4	4.1	0.8	2.5
Hungary	69.9	-5.8	4.8	4.4	2.4
Slovenia	69.3	-3.7	6.0	1.3	1.4
Germany	64.8	-2.2	2.6	0.8	1.6
Croatia	60.8	-0.1	4.6	1.2	1.8
Slovakia	56.7	-5.7	4.8	1.0	2.0
Malta	53.3	-5.1	4.5	1.1	0.8
Poland	50.9	-5.8	4.5	2.1	3.9
Romania	47.9	-6.3	4.7	1.6	2.4
Netherlands	47.1	-0.5	3.1	0.7	1.7
Czech Republic	44.7	-3.8	4.9	1.3	1.5
Ireland	43.0	0.9	2.1	0.7	0.3
Latvia	41.7	-3.2	5.3	0.7	2.3
Lithuania	37.3	-1.6	3.7	0.5	2.5
Sweden	30.4	-0.2	5.0	0.6	1.5
Denmark	30.3	2.6	3.4	0.6	1.7
Luxembourg	26.8	-1.9	4.5	0.3	0.7
Bulgaria	23.5	-3.0	3.1	0.5	1.8
Estonia	19.2	-2.9	5.2	0.5	2.7
*Average***	*65.7*	*-2.7*	*3.9*	*1.4*	*1.8*

*Notes: *Investment is gross fixed capital formation. **Average is unweighted.*

Source: AMECO database of the European Commission for government accounts and the United States Central Intelligence Agency for defence spending.

spending. The two countries are similar in terms of interest payments, but otherwise they are very different. France has a lower level of debt and low interest payments, but otherwise falls somewhere in between, with Greek levels of investment but something closer to Italian levels for deficits and defence spending. By some metrics, Spain and Belgium look more like Italy than France, and by others more like France than Italy. This variation is consistent with the emphasis on national ownership and differentiated adjustment processes but raises questions about the effectiveness of common incentives.

The political signalling in the agreement is more straightforward. The agreement makes it clear that fiscal consolidation should be structural and not pro-cyclical, that it should run alongside public investment and not come at the expense of it, that it should support common European policies, and that it should

> "The agreement makes it clear that fiscal consolidation should be structural and not pro-cyclical, that it should run alongside public investment and not come at the expense of it, that it should support common European policies, and that it should not come at the expense of national security."

not come at the expense of national security. These qualifications open the door for an important conversation about the collective fiscal stance of the European Union and about the adequate provision of European public goods. The strengthening of the European Fiscal Board also points in that direction. The emphasis is not just on the sustainability of public finances but also, increasingly, on the quality of public expenditure. And while the new framework gives priority to national ownership of any fiscal adjustment process, it also underscores the common interest in macroeconomic policy coordination for the member states of Europe.

Conclusion

The new framework for fiscal consolidation and macroeconomic policy coordination negotiated under the Spanish Presidency constitutes a significant improvement over the existing framework and an important step forward for the European Union. The new arrangement still has technical elements that will attract criticism (see, *e.g.* Zettelmeyer, 2023). The proposed legislation must also win support from the European Parliament. Nevertheless, the agreement sends a powerful signal about the importance of transparency and credibility in financial markets, the quality of public finances, and the necessary balance between common rules and national ownership. The framework does not diminish the challenges that some member states will face in reducing their debts and deficits, but it does help to ensure that those consolidation efforts will be less pro-cyclical and more realistic.

Notes

[1] A copy of that paper can be found here: https://www.government.nl/binaries/government/documenten/publications/2022/04/04/joint-paper-eurogroup-es-nl/joint-paper-eurogroup-es-nl.pdf

[2] See, for example, the Dutch government's announcement of the Spanish-Dutch contribution to the fiscal reform debate: https://www.government.nl/latest/news/2022/04/04/spain-and-the-netherlands-call-for-a-renewed-eu-fiscal-framework-fit-for-current-and-future-challenges

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Outlook for the Spanish economy in 2024-2025: Navigating an uncertain international backdrop

Compared to its European peers, the Spanish economy has weathered the inflationary storm and geopolitical tensions of recent years relatively well, buoyed by its strong competitive positioning. In the near-term, however, a slowdown is anticipated in light of the weak external environment and contractionary turn in macroeconomic policy, with fiscal dynamics remaining a key vulnerability.

Raymond Torres, María Jesús Fernández and Fernando Gómez Díaz

Abstract: Compared to its European peers, the Spanish economy has weathered the inflationary storm and geopolitical tensions of recent years relatively well, buoyed by its strong competitive positioning. GDP growth is estimated at 2.4% in 2023, which is nearly two whole points above the eurozone average, with the current account surplus hitting an all-time high. In the near-term, however, a slowdown is anticipated in light of the weak external environment and contractionary turn in macroeconomic policy – both fiscal and monetary. We are forecasting GDP growth of 1.5% in 2024, which is nevertheless above the projection for the European average. Elsewhere, investment in capital goods remains 8.8% below pre-pandemic levels, a trend that does not bode well for productivity in the medium-term and poses a challenge in terms of maximizing the impact of the European funds on the Spanish economy. Lastly, the public deficit is set to remain above

the thresholds required by Brussels, even if growth recovers as expected in 2025.

Recent developments

The Spanish economy performed better than expected in 2023 (Torres and Fernández, 2023), albeit showing signs of slowing in recent months. According to the revised quarterly national accounts, GDP inched just 0.3% higher in the third quarter of 2023, continuing, however, to clearly outperform the eurozone average.

Third-quarter growth was driven by a positive contribution by domestic demand of 0.8 percentage points, more than offsetting the slump in external demand, which detracted from growth 0.5 percentage points, as exports contracted by more than imports. Among the components of domestic demand, the momentum came from consumption, both public and private. In contrast, investment contracted, dragged down by construction, which more than offset the growth in investment in capital goods and intangible assets. As for the external sector, exports contracted –as they had in the second quarter– having notched up almost interrupted growth since the end of the health crisis. Imports likewise shrank and remain below pre-pandemic levels.

Employment, measured in hours worked, continued to improve. Although employment on aggregate topped pre-pandemic levels by the second quarter of last year, several sectors continue to lag that threshold, namely the primary, manufacturing, construction, financial and insurance, professional activities and retail, transport, and hospitality sectors.

In the first three quarters combined, the number of hours worked increased by 1.6%, whereas the number of people in employment increased by 3%, implying a drop in hours worked per person. Productivity per hour fell slightly in the third quarter to leave the growth accumulated during the first three quarters at 1%.

Fourth-quarter indicators point to similarly solid GDP growth. Although the manufacturing PMI remained under 50 and below the third-quarter readings, it was well above the eurozone average. In services, on the other hand, a raft of indicators (PMI, overnight stays, and tourist arrivals) point to ongoing momentum. Lastly, in construction, the key indicators (permits and tenders) foreshadow a slowdown.

Social Security contributors increased at the same pace in the fourth quarter as in the third quarter –0.2%– trailing the growth recorded in the first half of the year. Despite this slowdown, the job market remains resilient and there are no signs of a shift for now. In 2023 as a whole, contributor numbers increased at an annual rate of 2.7%, which means half a million new contributors, having added over 1.2 million during the two previous years (Exhibit 1).

The strength of the job market, coupled with increases in wages and benefits (particularly pensions), has fuelled household disposable income, compensating higher debt service burdens. Stripping out the effect of inflation, it is estimated that household income increased by 6.1% in 2023, an all-time record. That in turn explains the strong performance in private consumption with savings remaining relatively high.

The headline inflation rate, picked up from its trough of 1.9% in June (largely reflecting base effects) to 3.5% in September and October,

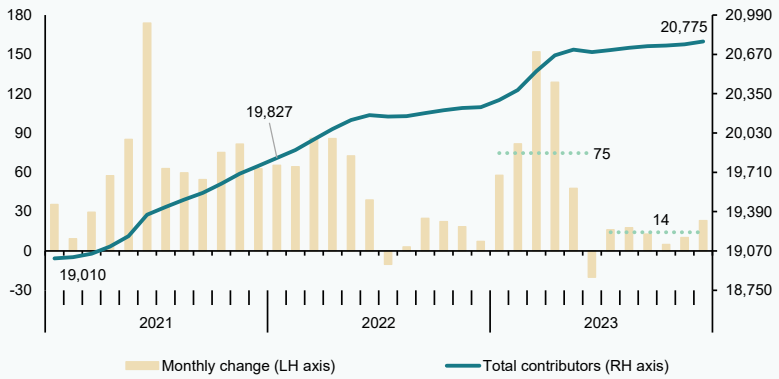
> “In 2023 as a whole, Social Security contributor numbers increased by 2.7%, which means half a million new contributors, having added over 1.2 million during the two previous years.”

> “Inflation, while remaining on a downward trend in 2024, will be affected by the withdrawal of the anti-inflationary measures introduced by the government.”

Exhibit 1

Social Security contributors

Thousands, adjusted for seasonality



Source: Spanish Ministry of Inclusion, Social Security and Migration.

before falling back to 3.1% towards the end of the year. Core inflation, meanwhile, has been trending lower since June and ended the year at 3.8%. These figures suggest that the let-up in inflation across the major components appears to be continuing. Inflation, while remaining on a downward trend in 2024, will be affected by the withdrawal of the anti-inflationary measures introduced by the government.

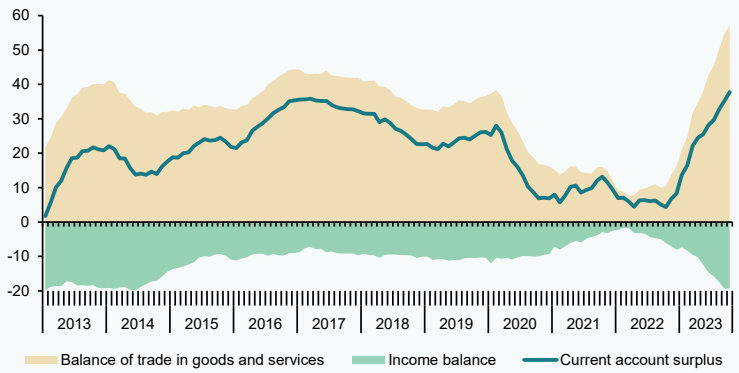
The correction in oil and gas prices in 2023 made energy imports cheaper and the prices of non-energy imports also fell, while export prices remained broadly unchanged. Thanks to that improvement in the terms of trade, and the healthy trend in the volume of net exports, the current account recorded a record surplus of 32.7 billion euros in the first 10 months of the year. That performance was driven by the reduction in the goods trade deficit and sharp increase in the services trade surplus (lifted by both tourist and non-tourist services), which more than offset a worse income balance (Exhibit 2).

Lastly, the public deficit remains significant. As of September, the overall deficit was broadly flat year-on-year (25.42 billion euros *versus* 26.58 billion euros in 10M22). The very slight improvement is being driven by revenue, particularly receipts from new taxes, personal income tax, corporate income tax and social security contributions. Public expenditure, meanwhile, continues to register strong growth, especially expenditure on intermediate goods, interest, wages, and benefits, particularly pensions. Real growth in tax revenue is estimated at 9% between 2019 and 2023 (*i.e.*, discounting inflation), with primary spending increasing by 11.8%. These are magnitudes that will be hard to sustain.

> “Taking investment accumulated over the last four quarters as our measure, Spain is the EU country where investment in capital goods has contracted the most since 2019.”

Exhibit 2 **Balance of payments**

Billion euros, trailing 12 months



Source: Bank of Spain.

Corporations and households are using their surpluses to repay debt

One red flag in the Spanish economy's recent performance is the stagnation in investment in capital goods, which remains below pre-pandemic levels, in contrast to the growth observed across the eurozone as a whole, where investment is back above that benchmark (Exhibit 3). Taking investment accumulated over the last four quarters as our measure, Spain is the EU country where investment in capital goods has contracted the most since 2019. By comparison, investment in Greece, Italy and Portugal has registered double-digit growth. Germany has yet to revisit its pre-pandemic level but is still ahead of Spain.

And that is despite the fact that: (i) Spain is the second-biggest recipient of European funds; and, (ii) Spanish firms are less leveraged than their European counterparts, which has left their earnings less exposed to the increase in interest rates, giving them more room to invest.

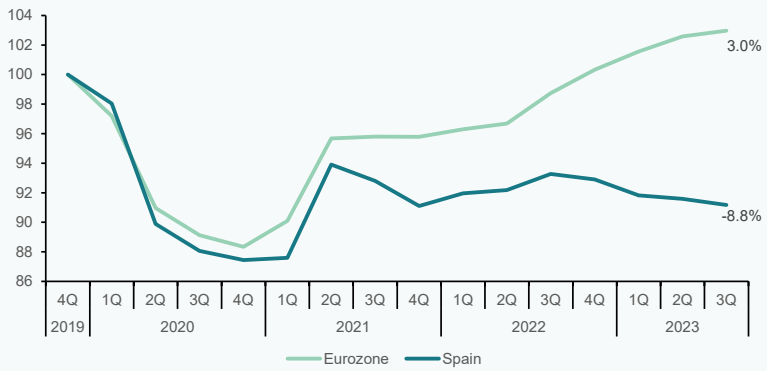
The volume of investments by non-financial corporations in 2022 and until the third quarter of 2023 (the latest figure available) was significantly below their undistributed earnings or disposable income. That has implied the accumulation of a sizeable financial surplus, higher in relation to GDP than that generated by the eurozone corporations on average.

That surplus has been used to repay debt. In the four quarters to 3Q23, Spain's non-financial corporations repaid a net 68.5 billion euros of debt (net repayment of 29.2 billion euros on a consolidated basis, *i.e.*, excluding intercompany loans). In fact,

> “ The debt-to-GDP ratio of Spanish corporations stood at 65.5%, the lowest reading since 2002. ”

Exhibit 3 **Gross fixed capital formation in capital goods**

Numbers rebased to 4Q19 = 100, trailing four-quarter figures



Source: Eurostat.

firms also reduced their financial asset holdings in order to pay down debt (Exhibit 4). On the other hand, in the eurozone as a whole, until the second quarter, net borrowings were on the rise. In other words, in contrast to their Spanish counterparts, corporations in other European countries continue to take on more liabilities to finance their investments.

The volume of outstanding debt owed by Spanish corporations remains above 2019 levels in nominal terms due to the spike in debt taken on during the pandemic. However, the picture changes relative to GDP: the debt-to-GDP ratio stood at 65.5%, the lowest reading since 2002. By comparison, the eurozone average (as of 2Q) was 68.8%. Among the region's main economies, Denmark and the Netherlands stand out with corporate leverage ratios of over 100%. German and Italian corporations are less leveraged than their Spanish counterparts, and French businesses, more so.

Note, however, that the situation is highly uneven across the universe of Spanish corporations, as gleaned from the Bank of Spain's Central Balance Sheet Data Office (Bank of Spain, 2023a). Also, the ICO (Spain's Official Credit Institute) statistics reveal that some corporations are in arrears on the repayment of the loans awarded during the pandemic, indicating important exceptions to the general trend of corporate deleveraging. ICO loans classified as non-performing amounted to 30% as of June 2023 (Bank of Spain, 2023b).

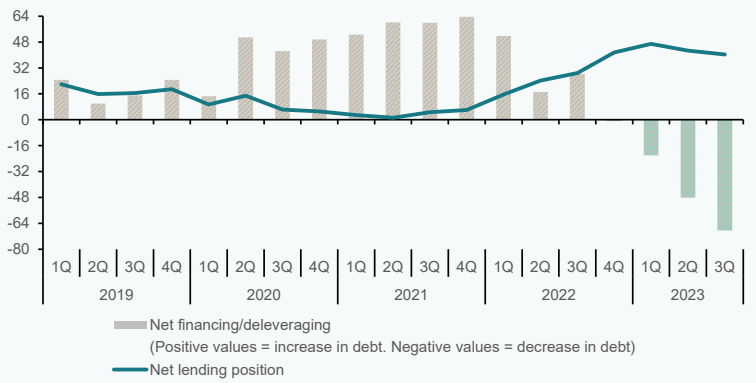
Households, meanwhile, continued to present high savings levels as of the third quarter, higher than before the pandemic, which has translated in sharp growth in their financial surplus. Their trailing four-quarter

> “Spanish household debt accounted for 48% of GDP as of the third quarter, similarly the lowest level since 2002.”

Exhibit 4

Financing and net lending of corporations

Billion euros, trailing four quarters



Sources: INE and Bank of Spain.

net lending position stood at 38.8 billion euros as of the third quarter, the highest in the entire series if we leave out the pandemic (when savings reach extraordinary levels due to the “forced” savings component). Relative to GDP, that position represented 2.7%, which is very similar to the position built up by European households as a whole during that same timeframe. Within the eurozone, German and French households recorded noteworthy net lending positions of 5.8% and 4.6% of GDP, respectively. In Italy, households net lending position was nil.

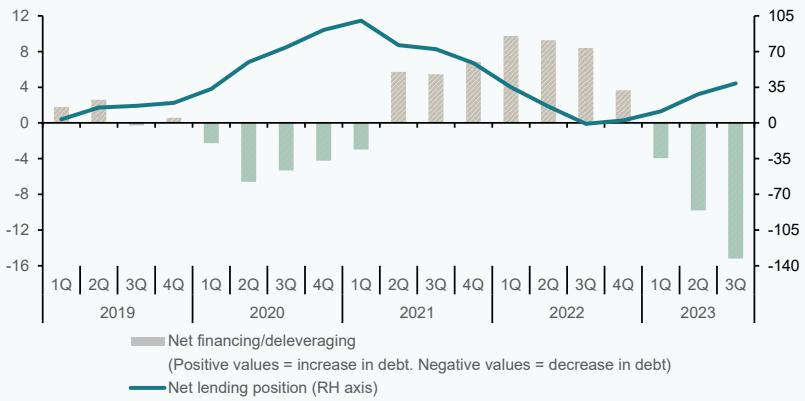
Some of the surplus has been used to repay debt (net repayment in the 12 months to September of 15.2 billion euros) and some to purchase financial assets (Exhibit 5). European households, in contrast, increased their borrowings in the 12 months to June, albeit with waning intensity. Spanish household debt accounted for 48% of GDP as of the third quarter, similarly the lowest level since 2002. The eurozone average was 55%. Among the major European economies, only Italian households were less indebted. The most indebted households were the Dutch.

> “For 2023, growth is forecast at 2.4%, unchanged from our last set of forecasts but significantly better than we were forecasting at the start of last year and we are forecasting GDP growth of 1.5% in 2024 (unchanged).”

Exhibit 5

Financing and net lending of households

Billion euros, trailing four quarters



Sources: INE and Bank of Spain.

Forecasts for 2024-2025

For 2023, growth is estimated at 2.4%, unchanged from the previous projections but significantly better than anticipated at the start of last year. The result was driven by strong momentum during the first half of the year, with GDP slowing in the second half.

For this year, our forecasts start from the premise that energy prices will stay around current levels. In other words, the price corrections enjoyed last year will not reverse. We also assume that macroeconomic policy will be more restrictive than in the recent period: in addition to monetary tightening (the successive interest rate hikes will have their maximum impact in the months to come), fiscal tightening looms, leaving behind the expansionary stance of recent times (the European funds likely the only support to be left in place). Our forecasts also assume the reversal of some of the anti-inflation measures of prior years, such as VAT and other tax cuts. Lastly, the international climate is expected to remain relatively unfavourable, shaped by lethargic global trade and the persistence of intense geopolitical uncertainty.

Framed by these assumptions, the slowdown is expected to continue in the near-term. We are forecasting GDP growth of 1.5% in 2024 (unchanged). The slowdown will be driven in part by domestic demand, which is expected to contribute 1.6 percentage points, down 0.5 percentage points from 2023. Consumption is expected to decline notably, more so public spending but also

> “In light of the demand slowdown and assuming the absence of a fresh energy shock, disinflation should take hold in 2024 albeit without reaching the ECB’s target until at least 2025.”

private spending, underpinned by flagging job creation and the wage moderation agreement. Residential investment is also expected to weaken, undermining the slight rebound anticipated in investment in capital goods, as the European funds trickle through to the real economy.

External demand is likely to suffer from broader international weakness, detracting from growth by 0.1 percentage points. The export markets will also suffer from the weak state of the European economy, with Germany on the verge of recession. Imports, on the other hand, are expected to recover, having slumped last year, returning to the elasticities of recent years.

In light of the demand slowdown and assuming the absence of a fresh energy shock, disinflation should take hold in 2024 albeit without reaching the ECB's target until at least 2025. The GDP deflator, a proxy of the underlying trends, is forecast at 3.3%, down 2.6 points from 2023. The reduction reflects relative moderation in both wage costs and business profits. Disinflation is expected to be less pronounced in terms of CPI, which we are forecasting at 3.1% this year, down 0.4 percentage points from 2023. The reversal of the current anti-inflation measures will translate into an increase in consumer prices (estimated at 0.6pp) without directly affecting production prices. In 2025, we expect the GDP deflator and CPI to converge towards the target of 2%.

Disinflation should provide fertile ground for interest rate cuts from the summer. It is predicted that the ECB will bring its deposit facility rate to 3.25% by year-end and we are forecasting Euribor at 3%. While these are still contractionary levels, the turnaround should foster a gradual improvement in the economic outlook over the course of the year in Spain and the rest of the eurozone alike.

All of which should create momentum for 2025, when we are projecting GDP growth of 2%. Investment dynamics should improve once interest rates start to moderate, helped by corporations' low leverage. Exports are also expected to rebound as the eurozone economy begins to recover. The Spanish economy is nevertheless expected to continue to grow faster than the European average.

Its outperformance is underpinned by two important sources of resilience: the job market and the international competitiveness of Spain's corporations. The job creation cycle is expected to continue, bringing unemployment down to an estimated 11.2% by the end of 2024, still very high by comparison with the rest of Europe. We are now forecasting higher unemployment than previously but that is attributable to an upward revision to our active population projections, mainly due to the arrival of foreign workers. In 2025, we expect unemployment to come down further, to 10.6%.

The external surplus, another source of resistance, is expected to remain intact throughout the entire projection horizon thanks to the competitiveness of Spanish exports. We are forecasting a current account surplus of close to 2.5% of GDP and an even higher overall net lending position (arrived at by adding the European funds to the current account surplus).

The slowdown in the economy in 2024, coupled with the increase in debt service costs generated by the increase in interest rates will make it hard to correct the current budget imbalances. In the absence of further deficit-cutting measures, we are estimating a deficit of 3.5% in 2024, with public debt at over 107% of GDP, above the levels permitted under the European fiscal rules. The recovery in growth forecast for 2025 will help bring the deficit down to 3.3%, with public debt expected to come down by one percentage point.

Risks

The risks to the above projections are still mainly on the downside. In the near-term, intensifying tensions around the Red Sea could unleash fresh disruption in global supply chains and trade, hindering the disinflation process. Shipping costs have already surged 3.4-fold in the last two months. If this persists, we would be looking

Table 1

Economic forecasts for Spain, 2023-2025

Annual rate of change in percentages, unless otherwise indicated

	Actual data			Funcas forecasts			Change from last set of forecasts (a)	
	2008-2013 average	2014-2019 average	2022	2023	2024	2025	2023	2024
1. GDP and aggregates, constant prices								
GDP	**-1.3**	**2.6**	**5.8**	**2.4**	**1.5**	**2.0**	**0.0**	**0.0**
Final consumption, households and NPISHs	-2.1	2.2	4.7	2.3	2.1	2.0	0.1	0.0
Final consumption, government	0.9	1.3	-0.2	2.6	0.4	0.7	0.2	-0.3
Gross fixed capital formation	-7.6	4.8	2.4	1.8	1.7	3.3	-0.6	0.0
Construction	-10.7	4.9	2.6	3.2	1.7	3.2	-1.2	-0.1
Capital goods and other products	-2.7	4.8	2.2	0.2	1.8	3.5	0.2	0.2
Exports of goods and services	1.8	3.9	15.2	1.4	1.2	2.4	-1.7	-0.5
Imports of goods and services	-4.0	4.4	7.0	0.7	1.6	2.4	-1.4	-0.1
Internal demand (b)	-3.1	2.6	2.9	2.1	1.6	1.9	0.1	0.1
Net exports (b)	1.8	0.0	2.9	0.3	-0.1	0.1	-0.1	-0.1
GDP, current prices: - billions of euros	--	--	1,346.4	1,460.3	1,531.6	1,597.9	--	--
- % change	-0.8	3.4	10.2	8.5	4.9	4.3	0.5	-0.2
2. Inflation, employment and unemployment								
GDP deflator	0.5	0.8	4.1	5.9	3.3	2.3	0.4	-0.2
Household consumption deflator	1.7	0.7	6.5	4.1	3.1	2.4	0.2	-0.5
Total employment (national accounts, FTEs)	-3.4	2.6	3.7	3.1	1.3	1.3	1.2	0.4
Compensation per employee (per FTE)	2.4	0.9	2.9	5.2	3.0	2.7	0.3	-0.9
Unemployment rate (Spanish LFS, % of active pop.)	20.2	18.8	12.9	12.1	11.5	10.6	0.2	0.5
3. Financial equilibrium (% of GDP)								
National savings rate	18.8	21.7	22.1	23.1	23.0	23.2	-0.2	0.3
- of which, private savings	22.9	23.6	24.1	24.2	23.7	23.8	-0.8	-0.2
National investment rate	21.7	19.4	21.5	20.5	20.6	20.8	-0.5	-0.2
- of which, private investment	17.7	17.2	18.7	17.7	17.8	17.9	-0.7	-0.5
Current account surplus/(deficit)	-2.9	2.3	0.6	2.5	2.4	2.4	0.3	0.5
Spain's net lending (+) or borrowing (-)	-2.4	2.7	1.5	3.4	3.2	3.0	0.3	0.5
- Private sector	6.6	6.8	6.3	7.4	6.6	6.3	0.1	0.3
- Public sector	-9.0	-4.1	-4.7	-4.0	-3.5	-3.3	0.1	0.1
Government debt, EDP criteria	69.0	101.9	111.6	108.4	107.4	106.4	0.9	1.4
4. Other variables								
Eurozone GDP	-0.2	1.9	3.4	0.5	0.7	1.3	-0.1	-0.2
Household savings rate (% of GDI)	8.8	6.7	7.6	10.9	8.7	7.9	2.7	2.0
Household debt (% of GDI)	128.5	101.6	84.6	74.3	71.1	67.9	-3.8	-3.4
Consolidated NFCs debt (% of GDP)	112.7	81.6	71.2	65.1	61.6	58.6	-0.5	-0.4
12-month Euribor (annual average, %)	1.90	0.01	1.09	3.86	3.44	2.66	-0.05	-0.76
Yield on 10Y Spanish bonds (annual average, %)	4.74	1.58	2.19	3.48	2.92	2.58	-0.12	-1.08

(a) Percentage-point change between the current estimates and the last set of forecasts.
(b) Contribution to GDP growth in percentage points.
Sources: 2008-2022: INE and Bank of Spain; Forecasts 2023-2025: Funcas.

Table 2

Quarterly forecasts for the 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	-11.2	-12.3	3.6	-9.0	-20.1	-15.0	-9.0	-2.2	-6.5	15.5
2021	6.4	7.1	3.4	2.8	13.5	14.9	6.6	-0.2	7.1	14.8
2022	5.8	4.7	-0.2	2.4	15.2	7.0	2.9	2.9	3.7	12.9
2023	2.4	2.3	2.6	1.8	1.4	0.7	2.1	0.3	3.1	12.1
2024	1.5	2.1	0.4	1.7	1.2	1.6	1.6	-0.1	1.3	11.5
2025	2.0	2.0	0.7	3.3	2.4	2.4	1.9	0.1	1.3	10.6
Quarter-on-quarter growth rates										Unemp. rate
2022 I	0.3	-0.1	-0.2	2.7	3.7	2.2	-0.3	0.6	-0.1	13.6
II	2.5	1.4	-1.3	0.0	6.9	0.2	0.0	2.5	-0.1	12.5
III	0.5	2.5	1.4	0.7	-2.6	-0.7	1.3	-0.8	2.0	12.7
IV	0.5	-1.5	1.6	-3.6	0.6	-1.6	-0.3	0.8	0.2	12.9
2023 I	0.6	0.5	0.1	2.8	4.3	4.3	0.4	0.2	0.4	13.3
II	0.4	0.8	1.3	1.8	-3.0	-2.1	0.8	-0.4	0.4	11.6
III	0.3	1.3	1.3	-0.6	-4.1	-2.9	0.8	-0.5	2.4	11.8
IV	0.3	0.5	-2.5	1.7	3.0	4.0	0.1	0.2	0.0	11.9
2024 I	0.2	0.2	0.5	0.0	0.5	0.2	0.2	0.0	-0.2	12.4
II	0.4	0.4	0.5	0.2	0.7	0.3	0.4	0.0	0.1	11.2
III	0.5	0.5	0.6	0.2	1.0	0.4	0.4	0.1	0.2	11.3
IV	0.7	0.5	0.8	0.3	1.2	0.4	0.5	0.2	0.1	11.2
Year-on-year growth rates										
2022 I	6.8	6.6	0.0	2.8	18.0	12.2	4.8	2.0	5.3	--
II	7.2	4.9	-1.7	3.1	21.9	9.8	3.1	4.1	5.0	--
III	5.4	5.3	-0.6	4.0	12.9	6.5	3.0	2.3	2.8	--
IV	3.8	2.1	1.6	-0.4	8.7	0.1	0.8	3.1	2.0	--
2023 I	4.1	2.8	1.8	-0.3	9.3	2.2	1.5	2.7	2.5	--
II	2.0	2.3	4.4	1.5	-0.8	-0.2	2.3	-0.3	3.1	--
III	1.8	1.1	4.3	0.2	-2.3	-2.4	1.8	0.0	3.5	--
IV	1.6	3.2	0.1	5.8	0.0	3.1	2.7	-1.1	3.3	--
2024 I	1.3	2.9	0.5	2.9	-3.7	-1.0	2.4	-1.1	2.7	--
II	1.2	2.5	-0.3	1.3	0.0	1.4	1.7	-0.5	2.3	--
III	1.5	1.6	-0.9	2.1	5.3	4.9	1.2	0.2	0.1	--
IV	1.9	1.6	2.4	0.7	3.4	1.3	1.0	0.9	0.2	--

(1) Contribution in percentage points to GDP growth; (2) Full-time equivalents.

Source: INE and Funcas (forecasts).

“ Medium- and longer-term, 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 force and the ECB withdrawing support in the form of rates and debt repurchases. ”

at a new production cost shock. Faced with the risk of an interruption in disinflation, the ECB might stick with its current monetary stance, putting on hold rate cuts assumed in this set of forecasts. A more pronounced increase in the cost of money than estimated in the baseline scenario would also raise the probability of non-performance in the more vulnerable sectors and with it the risk of financial market stress.

Medium- and longer-term, 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 force and the ECB withdrawing support in the form of rates and debt repurchases.

Elsewhere, whereas private sector debt has fallen to low levels on aggregate, some companies and sectors face high financial burdens, built up during the years of monetary easing, for the current high-rate climate. More fundamentally, the lethargy in productive investment is a concern as it does not bode well for future productivity growth in Spain and represents a challenge in terms of putting the European funds to work for the economy.

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Income, savings and household wealth in Spain: 21st century transformation

Spanish households and their finances have undergone major structural transformation since the start of the century. These changes should be taken into consideration to ensure proper public policy design.

Marina Asensio, Marina García and Daniel Manzano

Abstract: Spanish households and their finances have undergone major transformation since the start of the century, from the time of Spain's inclusion in the eurozone. Taking a dual macro and micro perspective, an analysis of Spanish households over time, as well as relative to those of other large eurozone economies, reveals various major structural changes as regards the composition of the universe of Spanish households, and the main trends with respect to their income, savings, and wealth over the period. Indeed, driven in part by immigration, the number of Spanish households has increased in absolute terms as well as relative to the rest of Europe, meanwhile their average size has contracted, albeit remaining larger than the eurozone average. In parallel, there has been a widening of the wealth gap with respect to Europe, accompanied by a widening of the generational wealth gap in Spain, with households with the oldest heads having seen their income increase. In contrast, an area where there has been little change is households' scant propensity to save, remaining low and highly volatile compared to the levels in other eurozone economies. Nevertheless, this has not prevented Spanish households from accumulating wealth on equivalent or higher levels relative to

> “Household saving behaviour depends on the utility function (which determines whether they decide to spend today or in the future), uncertainty around future income, and the accessibility and efficiency of the financial markets to which households can turn to place their savings or borrow money.”

neighbouring countries, a trend plausibly explained by Spanish households' propensity to invest in the real estate market, and which is once again adding cost pressures for younger households. These changes should be taken into consideration to ensure proper public policy design.

Introduction

Households constitute a basic economic unit. Given their macroeconomic implications and impact on financial stability, the behaviour of households conditions and determines numerous public policies aimed to tackle their vulnerabilities. Moreover, far from being stable units, their composition and characteristics change over time and therefore impact their basic economic and financial decisions about spending, saving and investment. Naturally, the economic environment itself, which shapes household income levels and expectations, also informs those decisions.

A recent study published by the Afi Emilio Ontiveros Foundation (Berges and Manzano, 2023) focuses on the changes affecting Spanish households over the past quarter of a century. To do so, it relies on two sources of information that, adequately combined, yield extraordinarily relevant information. Firstly, the Spanish economy's annual financial and non-financial accounts for 2000-2022 provide a macro vision. Secondly, to get a micro vision, we rely on the results of *The Survey of Household Finances* (EFF in its Spanish initials) that have been carried out in Spain during this first quarter of a century. The use of these two sources of information has the added advantage of enabling a comparison with other major eurozone economies (Germany, France and Italy) over the same timeframe for which there is comparable information: on the one hand, the national accounts, which are standard under the scope of Eurostat; and, on the other, the *Household Finance and Consumption Surveys (HFCS)* that have been harmonised within the eurozone's central banking system since 2010 (in which the Spanish equivalent has been integrated since then).

Economic research into the financial conduct of households is primarily articulated around the life-cycle hypothesis of consumption whereby savings are the difference between income in each period and the optimal level of expenditure individuals can afford currently in light of their budget restrictions. On that basis, household saving behaviour depends on the utility function (which determines whether they decide to spend today or in the future), uncertainty around future income, and the accessibility and efficiency of the financial markets to which households can turn to place their savings or borrow money. Under the life-cycle hypothesis formulated by Nobel prize-winner Franco Modigliani mid-

> “There has been extraordinary growth in the number of Spanish households, yet they have shrunk considerably in size and have aged notably.”

> "The households with oldest heads have seen their income increase, in contrast to what has happened in all other age brackets, most notably in those with household heads under the age of 35, which have not been able to recover the income levels enjoyed at the start of the century in real terms."

last century, the accumulation of savings and purchase of durable goods takes place during an individual's working years, with dissaving generally taking place during the last years of retirement, during which income falls and individuals start to monetise some of the wealth accumulated in order to maintain certain levels of consumption and services. Certain variants and elements have since been layered into the life-cycle model to explain household behaviour more accurately, providing an analytical framework for interpreting the latter that is widely accepted.

Structural changes

As already indicated, there are structural elements, such as household size and composition, that condition household finances. Before progressing with our analysis of the key changes that have unfolded since the turn of the century, it is important to note that these basic units have transformed significantly. There has been extraordinary growth in the household population (4 million more households to total close to 19 million); they have shrunk considerably in size, extending the trend observed in previous decades (2.5 members on average today); and they have aged notably.

In addition to a combination of demographic factors (drop in birth rate and increase in life expectancy), the household population in Spain has been marked by unprecedented net immigration inflows, with immigrants accounting for over 70% of the growth of seven million people in the Spanish population during the period under analysis (the highest among comparable economies in relative terms). The Spanish population has increased by 17% during the period, well above the growth seen in France (12%) and very significantly above that observed in Italy (4%) and Germany (a mere 1%).

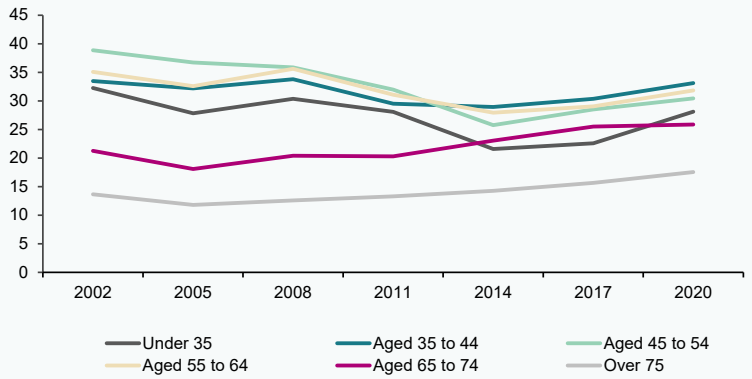
In parallel to the growth in the number of households, higher than the growth observed in the population for a variety of reasons (and not just demographic), average household size has fallen, albeit still larger than the eurozone average and, above all, than the average size in France and Germany. Households comprising just one or two members currently account for 55% of the total, which is 10 percentage points more than at the turn of the century.

Moreover, the share of younger households –those whose household head is under the age of 35– plummeted by nearly eight percentage points during that same period. And not only because the young population has decreased but also because the conditions facilitating the creation of new households have deteriorated sharply. So much so that after the above-mentioned shrinkage, the percentage of 'young' households in Spain is currently less than the equivalent shares in France and

> "The ratio of financial liabilities to household gross disposable income has decreased from a peak of 140% to 90%, compared to the eurozone average of 107%."

Exhibit 1 **Trend in median income by age of the household head, 2020**

Thousands of euros



Source: Authors' own elaboration based on Bank of Spain data.

Germany (barely over 7% compared to 16%-18%, respectively).

Income gap

Disruption in the convergence of the Spanish economy with its European counterparties in the wake of the financial crisis of 2008 and its aftermath, following a spell of unsustainable growth predicated on a real estate boom underpinned by ultra-low interest rates after Spain joined the euro, is another key explanatory factor for the changes seen in household finances in Spain. As a result of that crisis, despite the subsequent recovery, gross disposable income per capita has barely revisited the level observed at the turn of the century in real times, widening the gap relative to the eurozone average and the levels presented by some of the region's largest economies. In addition to, and no less significant than, the increase in the income gap relative to Europe, an analysis of income levels by age bracket reveals a widening of the generational wealth gap within Spanish households, in addition to verifying the life-cycle theory. The households with oldest heads (over the age of 65) have seen their income increase, without sustaining contractions in the wake of the crisis of 2008, in contrast to what has happened in all other age brackets, most notably in those with household heads under the age of 35, which have not been able to recover the income levels enjoyed at the start of the century in real terms. The pension income protection policies are largely responsible for this pattern.

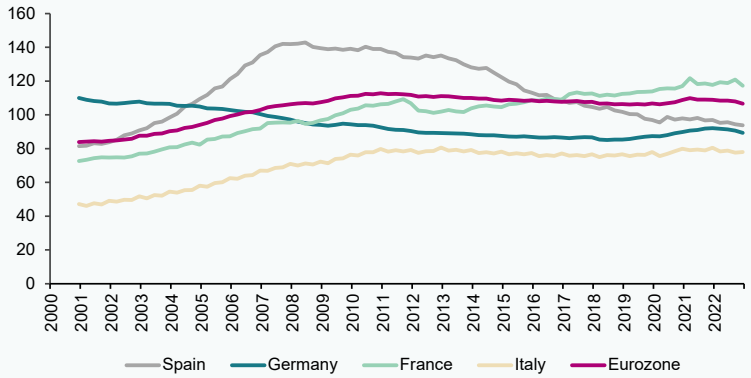
Coinciding with the real estate boom that preceded the 2008 crisis, Spanish household leverage shot up, before going on to converge towards average European levels. Indeed, household leverage has dipped below that average in recent years. The ratio of financial liabilities to household gross disposable income has decreased from a peak of 140% to 90%, compared to the eurozone average of 107%.

> "Spanish household savings levels remain highly volatile compared to the levels observed in other eurozone economies."

Exhibit 2

Liabilities over gross disposable income

Percentage



Sources: Authors' own elaboration based on Eurostat, Bank of Spain and ECB data.

Savings rates and wealth accumulation

An area where there has been very little change is households' scant propensity to save. Likewise, Spanish household savings levels remain highly volatile compared to the levels observed in other eurozone economies. Spain's low yet volatile savings rates are undoubtedly influenced by historic and cultural factors on aggregate such as greater appreciation for enjoying the present moment and greater trust in social safety nets and the welfare state, especially a more generous public pension system in comparative terms. Other factors at play, however, include relatively lower income levels and the greater sensitivity of Spanish GDP and employment to cyclical swings.

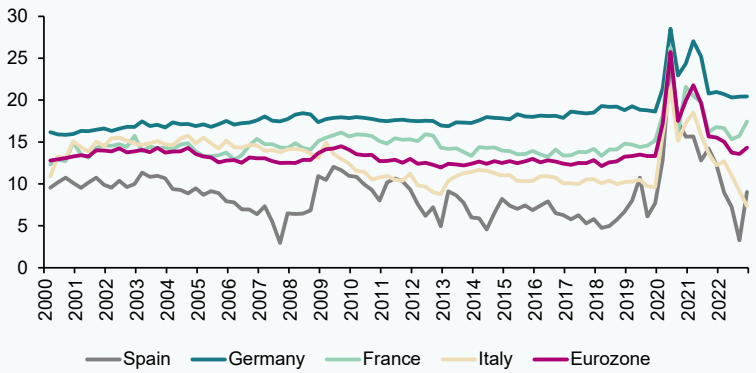
One of the most eye-catching outcomes of the analysis performed is the fact that the relatively lower savings rate in historic terms has not prevented Spanish households from accumulating relatively high levels of wealth, equivalent to or even higher than those seen in neighbouring economies. This counter-intuitive result is attributable to the fact that the process of household wealth accumulation is not only the result of the net purchase of assets as a consequence of the materialisation of savings over time. The amount of wealth accumulated (and its composition) is impacted by changes in the value of the assets that compose it, which stem from different variations in the factors that determine its valuation (interest rates, share prices, real estate prices, *etc.*). Indeed, asset revaluation can be, as or more decisive in the accumulation of wealth than the actual purchase of assets as a result of the gradual investment of savings. That is certainly the case in Spain, where that

> "The fact that more savings have gone into property in Spain and that real estate assets are the asset class to have revalued the most helps to explain why Spanish households have accumulated relatively high levels of wealth relative to neighbouring economies despite sustaining relatively lower savings rates."

Exhibit 3

Household savings rates across the main eurozone countries

Savings as a % of gross disposable income



Sources: Authors' own elaboration based on INE and Eurostat data.

effect is responsible for nearly three-quarters of the growth in household wealth during the period under analysis, compared to 54% in France, the next best case, and a much lower 23% and 30% in Germany and Italy, respectively. The fact that more savings have gone into property in Spain and that real estate assets are the asset class to have revalued the most (despite the swings related with the boom and bust either side of 2008), fuelled by the structural reduction in long-term rates since Spain joined the eurozone, adds plausibility to this explanation.

Although there are other factors, it would also go a long way towards explaining the greater concentration of wealth that has taken place, as illustrated by the higher percentiles of the wealth distribution: the richest 1% of households garnered 13.8% of total household wealth in 2002, compared to 22% by 2020, according to the *Household Finance Survey*. And the share of the richest 10% of households has increased from 43.9% to 53.9%.

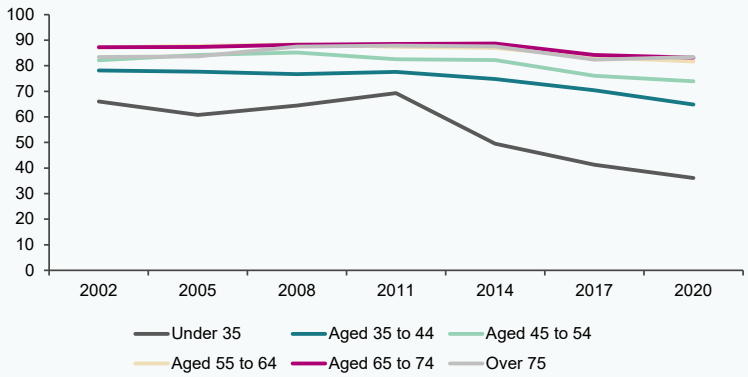
Asset revaluation, coupled with the above-mentioned erosion of real income, has made it harder for new generations to buy homes. Although this is not the only reason, as living arrangement preferences are also shifting, the fact is that younger households have halved their home ownership (35%, down from 70% at the turn of the century. This shift towards a new "way of living" based on rental is running up again the absence of a deep enough rental market capable of cushioning sharp upward pressure on prices. Here again we see the difficulties facing young adults looking to

> "Despite a doubling in the percentage of households living in rented housing, a stronger preference for home ownership has led to a greater concentration of financial wealth among high-income households, to the extent that the highest-income 10% of households encompass virtually 50% of household financial wealth."

Exhibit 4

Home ownership

Percentage by age of the household head



Source: Authors' own elaboration based on Bank of Spain data.

leave home and create new households in Spain.

Despite a doubling in the percentage of households living in rented housing (from 10% to 20%), Spanish households continue to present a stronger preference for home ownership than those of other eurozone economies. This leads to a greater concentration of financial wealth among high-income households, to the extent that today, after non-stop growth in that concentration, the highest-income 10% of households encompass virtually 50% of household financial wealth, as strictly defined. That concentration is even more pronounced in retirement savings, which are so important in other eurozone economies but are barely a factor outside of the most privileged income brackets in Spain.

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Spain's housing and mortgage markets

Despite an adverse economic climate, house price growth is proving resilient in Spain, fuelled by wholesale and non-resident demand, in addition to retail and residential demand, eroding affordability metrics. Focusing resources on enhancing access to affordable, quality housing, fostering an efficient rental market and increasing housing supply could help to curb this trend and facilitate more equitable access to housing.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: Despite an adverse economic climate, house price growth is proving resilient in Spain, fuelled by wholesale and non-resident demand, in addition toretail, residential demand. Indeed, just 38.9% of house sales are completed with mortgages. Although the data do not enable comprehensive identification of the underlying reasons, a number of circumstantial factors may be affecting these metrics, including a higher incidence of mortgage-less purchases in touristic areas and in inland Spain, whether by foreign buyers or as second homes. At any rate, the clearest interpretation of this phenomenon is that overall market volumes are largely being shaped by investment transactions, which are driving up prices. As for mortgage activity, in the aftermath of the pandemic, volumes started to rise again, at year-on-year rates of around 1%. Since December 2022, however, volumes have been contracting, by 3.1% year-on-year in October 2023, the last month for which this information is available. Spain has yet to find a point of equilibrium in the mortgage market between the heady rates of the financial and property bubble and those corresponding to a more normal monetary environment. These dynamics have eroded Spain's affordability metrics, particularly since the financial crisis and pandemic, when prices recovered swiftly, outpacing wage growth. Factors

> “While the ECB remains watchful of inflation, it has lowered its inflation forecasts, suggesting that its measures are having a bigger, or at least swifter, effect than expected.”

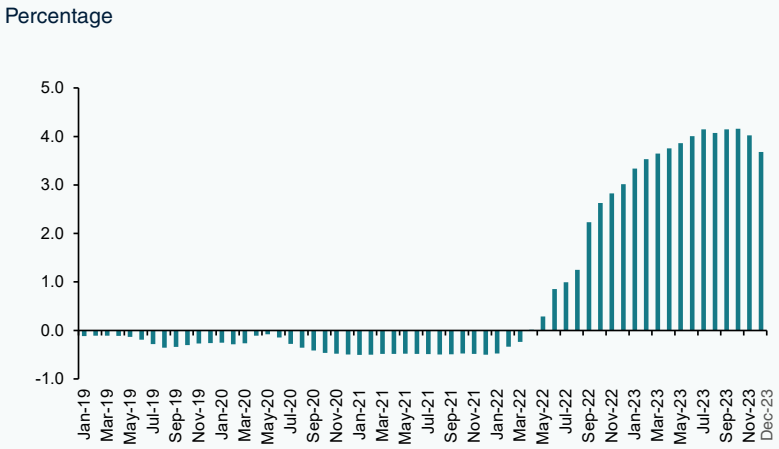
such as inadequate long-term land policies and growth in demand have exacerbated the problem, increasing inequality between home-owners and those unable to get a foothold on the housing ladder. Focusing resources on enhancing access to affordable, quality housing, fostering an efficient rental market –without interventions that ultimately inflate rents– and increasing housing supply (including more public housing options) could help to curb this trend and facilitate more equitable access to housing.

Monetary environment

Housing is an essential part of the life cycle, as well as a constitutional right. However, access to housing has become a problem in many countries, including Spain. In the current environment, marked by high interest rates, the cost of mortgages has risen sharply compared to 18 months ago. As shown in Exhibit 1, market interest rates (using 12-month Euribor as our proxy) were in negative territory until May 2022, when they started to rise, peaking at 4.2% in September 2023 and ending the year a bit lower, at 3.7% (Exhibit 1). That year-end drop in market rates signals that the market is expecting the European Central Bank to cut its official rates in 2024.

It is a little soon, however, to categorically state that rates will be cut this year, although it is looking probable. The ECB has been insisting that it has finished raising rates while cautioning that it remains watchful as inflation is still considerably above its target level. In parallel, however, the ECB has lowered its inflation forecasts, suggesting that its measures are having a bigger effect than expected, or at least a swifter impact. After its meeting on 25 January 2024, the ECB decided to keep the three key interest rates unchanged. As stated in the press release, “the incoming information has broadly confirmed its previous assessment of the medium-term inflation outlook. Aside from an energy-related upward base effect

Exhibit 1 **12-month Euribor (January 2019–December 2023)**



Source: Euribor and authors’ own elaboration.

on headline inflation, the declining trend in underlying inflation has continued, and the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation."

Table 1 **Mortgage rates around the world**

Country	Month	Average mortgage rate
Finland	December 2022	1.97
Eurozone	March 2023	2.09
Portugal	December 2022	2.15
Netherlands	March 2023	2.4
Luxembourg	March 2023	2.42
Belgium	March 2023	2.43
France	March 2023	2.54
Italy	March 2023	2.66
Spain	March 2023	2.70
Czech Republic	March 2023	2.81
Bulgaria	March 2023	2.82
Sweden	March 2023	3.02
Switzerland	March 2023	3.11
Ireland	March 2023	3.37
Slovenia	March 2023	3.41
Denmark	November 2022	3.53
Austria	March 2023	3.6
Slovakia	March 2023	3.68
Greece	March 2023	3.78
Canada	November 2022	3.86
Germany	March 2023	3.88
Norway	March 2023	4.2
Chile	March 2023	4.31
Lithuania	March 2023	4.52
United Kingdom	March 2023	4.57
South Korea	December 2022	4.63
Hungary	December 2022	4.85
US	April 2023	6.07
Latvia	March 2023	6.76
Australia	February 2023	6.95
Poland	March 2023	7.12
Romania	March 2023	8.08
Brazil	March 2023	11
Turkey	March 2023	17.79

Source: Statista.

> “Although ECB policy is a key determinant of mortgage costs, other market, banking, and macroeconomic risk factors likewise come into play.”

It is important to note, as shown in Table 1, that mortgage rates vary considerably around the world, even within the same monetary area, as is the case in the eurozone. This means that although ECB policy is a key determinant of mortgage costs, other market, banking, and macroeconomic risk factors likewise come into play. For example, the average cost of a mortgage in Spain was 2.7% in March 2023, compared to averages of 2.09% for the eurozone, 4.57% in the UK and 6.07% in the US.

Prices and the mortgage market

Although house prices were expected to ease tangibly in 2023, they remained surprisingly strong all year, particularly during the second half (pending release of the year-end numbers). The house price index published by the national statistics office, INE, for the third quarter of 2023 revealed year-on-year growth of 4.5%, shaped by growth of 3.2% in existing homes and of 11% in new homes.

It is important to stress, in any event, that there are many housing markets within Spain, as there is significant dispersion in price growth and affordability metrics from one region to the next. Using the same timeframes, we note that prices increased by 7.6% in Navarre in the third quarter of 2023 and by 6.6% in the Canary Islands but by just 1% in Castile-La Mancha and 1.1% in Extremadura (Exhibit 2).

The persistence of the price increases does not appear to fully tally with prevailing macroeconomic conditions as demand would be expected to be adversely affected by the sharp increase in interest rates and slowdown in economic growth. Considering current inflation, however, the growth in real

Table 2 **House price index (3Q23)**

Housing	Index	Quarterly (%)	Year-to-date (%)	Annual (%)
GENERAL INDEX	150.3	2.5	5.3	4.5
New homes	172.0	4.1	9.0	11.0
Existing homes	146.9	2.2	4.7	3.2

Source: INE.

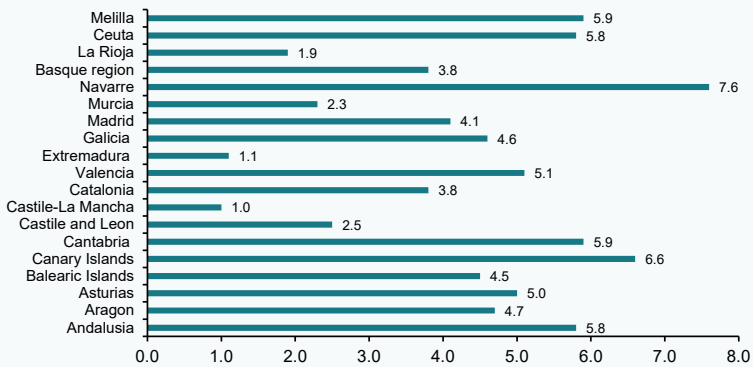
> “The house price index published by the national statistics office, INE, for the third quarter of 2023 revealed year-on-year growth of 4.5%, shaped by growth of 3.2% in existing homes and of 11% in new homes.”

> "While the persistence of the price increases does not appear to fully tally with prevailing macroeconomic conditions as demand would be expected to be adversely affected by the sharp increase in interest rates and slowdown in economic growth, at any rate, the problem lies with supply."

Exhibit 2

Annual change in prices by region (3Q23)

Percentage



Source: INE.

prices is considerably lower. At any rate, the problem lies with supply. The Bank of Spain signalled some of the long-term issues in a report in 2023, [1] flagging land management in particular and indicating the need to revise how developable land is managed in order to respond to housing needs more effectively. That suggests that the current policies and regulations could be limiting the availability of land apt for the development of new homes.

In parallel, the pandemic, along with the war in Ukraine and current bout of inflation, are having long-term effects on both supply and demand in the property market. During the pandemic, new homes under construction were paralysed and not resumed at the same pace as demand, creating a shortfall of supply. In addition, the high cost of construction materials has also impeded the start of new property developments, further reducing

> "Evidencing the supply constraints, data show that 8 out of every 10 Spanish capitals experienced a reduction in their stock of existing housing in 2022, marked by significant decreases in Madrid and Barcelona."

> The forecasts for housing prices in Spain in 2024 point to a slowdown and even correction; however, the Spanish property market is characterised by diverse trends by city and region.

the supply of new homes. The shortage of supply is evident in the data offered on some of the online platforms, such as Casavo, [2] which indicates that 8 out of every 10 Spanish capitals experienced a reduction in their stock of existing housing in 2022, marked by significant decreases in Madrid and Barcelona. The stock of unsold housing is also being adversely affected by the fact that the successive waves of global economic uncertainty and episodes of inflation have eroded confidence in embarking on new real estate projects.

The forecasts for housing prices in Spain in 2024 point to a slowdown and even correction; however, the Spanish property market is characterised by diverse trends by city and region.

In general, house prices are expected to continue to notch up moderate growth, shaped mainly by a healthier job market. However, the Spanish property market is characterised by diverse trends by city and region. In the biggest cities, such as Madrid and Barcelona, demand is expected to remain stronger, translating into considerable growth in prices.

Sales volumes and mortgages

It is important to analyse how house purchases are financed in Spain. The INE publishes some simple statistics that nevertheless provide some interesting insight. Between January and October 2023 (the last figures available), transaction volumes totalled 832,756, with 323,998 of those transactions financed via mortgage. That indicates that just 38.9% of house sales are completed with mortgages. Although a number of circumstantial factors may be influencing these metrics, the clearest interpretation of this phenomenon is that overall market volumes are being largely shaped by wholesale and non-resident investment transactions, which are driving up prices. Another considerable percentage of these mortgage-less transactions is concentrated in touristic regions and is accounted for by second homes for Spanish and international buyers. However, this phenomenon is also being observed in inland cities, highlighting the purchase of homes (wholesale and retail) as (non-residential) investments. This may also be impeding access to first homes for residential usage by feeding price growth even in environments in which the economic fundamentals would normally foreshadow price corrections. Remember that during the prolonged period of ultra-low and even negative rates from the financial crisis until the end of 2021, housing emerged as a compelling investment alternative due to the lack of other pathways to earning returns, a phenomenon which has had long-term effects, even as interest rates have moved higher.

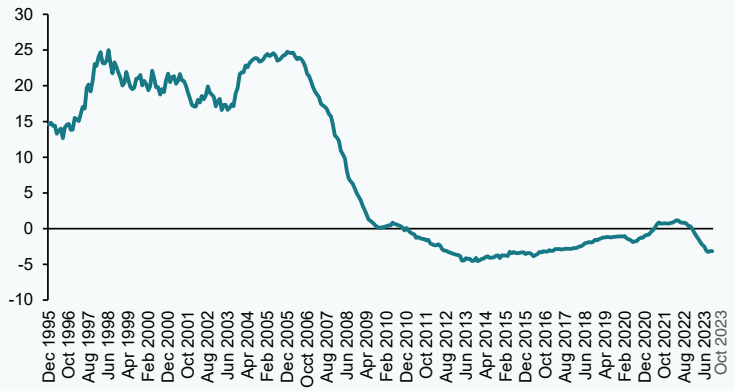
Lastly, it is worth looking at what is happening in home mortgage demand and supply. Exhibit 3 provides an allegory of

> During the prolonged period of ultra-low and even negative rates, housing emerged as a compelling investment alternative due to the lack of attractive options – a phenomenon which has had long-term effects, even as interest rates have moved higher.

Exhibit 3

Year-on-year change in the flow of mortgages

Percentage



Source: Bank of Spain and authors' own elaboration.

sorts for the mortgage market paradigm in Spain. The year-on-year flows in home mortgages (new transactions, not stock) have not revisited pre-financial crisis levels. The exhibit goes right back along the Bank of Spain's full series, to 1995. Mortgage flows were registering annual growth of over 15% at the end of the 90s and in the first decade of this century continued to rise, peaking at growth rates of almost 25% between 2004 and 2006, which is when the property bubble was at its most inflated. After that bubble burst, so too did the flow of mortgages, which registered contractions for more than a decade, between November 2010 and April 2021. In the aftermath of the pandemic, volumes started to rise again, but only by around 1%. Since December 2022, however, volumes have been contracting, by 3.1% in October 2023, the last month for which this information is available. These figures suggest that Spain has yet to find a point of equilibrium in the mortgage market between the heady rates of the financial and property bubble and those corresponding to a more normal monetary environment.

Conclusion: Affordability issues linger

This analysis of the housing market in Spain shows that price growth has proven resilient relative to the levels augured by the prevailing economic cooling and slump in demand. The gap between the total volume of housing transactions and the number financed using mortgages suggests that the large majority of properties are being purchased as wholesale, non-residential investments, a phenomenon which is pushing prices higher and impeding access. The figures also reveal the complexity of the mortgage market which has yet to strike a balance between the double-digit growth

"Spain has yet to find a point of equilibrium in the mortgage market between the heady rates of the financial and property bubble and those corresponding to a more normal monetary environment."

observed prior to the financial crisis and subsequent negative rates.

Regardless, housing affordability is a fundamental issue for sustainable economic and social development. In recent years, affordability has deteriorated in Spain and other countries and emerged as a particularly controversial topic in the wake of the financial crisis and pandemic, as the episodes of price corrections have been short-lived and followed by periods of sharp price recovery, above the levels of wage growth. This is attributable to a series of factors, including a shortage of land, growth in demand for housing and wholesale and non-resident investing activity in the property market. That means that households with average income levels need to work more hours to be able to buy a house. The impairment of housing affordability exacerbates inequality by benefitting home-owners and harming renters and households that cannot afford to buy a home. Home affordability issues also have adverse consequences for social mobility. Lower income households that cannot afford to buy a home may be obliged to live in areas that offer fewer job and education opportunities. Certain zoning policies, particularly those that do not work in favour of increasing the supply of homes for residential usage, have helped erode the affordability metrics.

Policy responses to the affordability issues have tended to take the form of loan relief and help with mortgage restructuring. However, that strategy has not always delivered the expected or desired results. Often, government support measures have failed to effectively cushion episodes of price correction and in some cases have even contributed to prolonging the bubbles. Policymakers could rethink how they encourage home ownership to ensure inclusive access to quality homes. That would include supporting an efficient rental market (abandoning interventions that only drive rents higher) and boosting housing supply, including a bigger stock of public housing.

Notes

[1] https://www.bde.es/wbe/en/publicaciones/analisis-economico-investigacion/boletin-economico/2023-t2-articulo-09--el-desajuste-entre-la-oferta-y-la-demanda-de-vivienda--y-su-relacion-con-los-precios.html

[2] https://casavo.com/es/blog/inflacion-convierte-la-vivienda-de-segunda-mano-en-el-valor-refugio/

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CoCos and bank resolution: Overcoming March stigma

Given the fact that they are considered loss absorbing instruments in the event of resolution, CoCos have emerged as a very important barometer for measuring confidence in the banking system. Although the bail-in of CoCos during the rescue of Credit Suisse created a stigma that prompted the global CoCo market to collapse, the market has recovered in recent months, marked by a significant rebound in prices and, above all, in issuance activity.

Ángel Berges and Salvador Jiménez

Abstract: Contingent convertible bonds (known as CoCos), which are additional tier 1 (AT1) instruments, have been the instrument of choice for European and Spanish banks looking to reinforce their capital since the financial crisis and, more importantly, the cornerstone of the bank resolution mechanism insofar as they constitute loss absorbing instruments in the event of resolution. As a result, the market for CoCos has emerged as a very important barometer, as or more important than the market for banks' shares, for measuring confidence in the banking system. That is why this market suffered a rout during the banking crisis of last March and was hit particularly hard by how the Swiss authorities treated Credit Suisse's CoCo creditors, creating "stigma" around the instrument in general. The way CoCos were bailed in when Credit Suisse was rescued created a stigma that prompted the global CoCo market to collapse. Nonetheless, the market has recovered in recent months, marked by a significant rebound in prices and, above all, in issuance activity.

CoCos as a potential capital reinforcement and/or resolution mechanism

CoCos were first issued by the banks in 2013 in the wake of publication of the Capital

> The key features of CoCos, which qualify them as quasi tier 1 capital (additional tier 1 or AT1), are that they are perpetual securities and are convertible into shares in the event that the issuer sees its common equity tier 1 (CET1) fall below a certain threshold

Requirements Directive (CRR) and the Bank Recovery and Resolution Directive (BRRD) in order to lift their capital ratios, as they compute as additional tier 1 capital (AT1) for regulatory capital purposes.

The key features of these instruments, which qualify them as quasi tier 1 capital (additional tier 1 or AT1), are that they are perpetual securities and are convertible into shares in the event that the issuer sees its common equity tier 1 (CET1) fall below a certain threshold, or trigger.

In general, CoCos are hybrid instruments that combine elements of fixed income and equity securities. They are standard bonds with the added feature that they automatically convert into shares in the event of materialisation of a certain contingency. That means that the bond holder would receive, instead of the face value of its bonds, a specific number of shares, as defined in the issue prospectus.

For contingent convertibles to qualify as AT1 capital for solvency purposes, they must meet the following characteristics:

- They must be issued with no final maturity date and be fully paid in;
- They may be callable and replaceable by their issuer five years after their issuance, subject to express prior authorisation from the supervisory authority;
- Coupon payment gets suspended under certain circumstances, including a shortfall of profits or reserves at the issuer, at the behest of the supervisor if it considers that the payment could undermine the issuer's solvency, or for other reasons at the issuer's discretion insofar as they are contemplated in the original prospectus. Suspension of coupon payments does not imply the build-up of the missed payments and is not considered a credit or default event;
- CoCos include special clauses whereby the securities are written down, fully or partially, or mandatorily converted into ordinary shares of the issuer (CET1) in the event of occurrence of a defined trigger event. They likewise feature clauses establishing the conversion price, amount and deadlines in the event that the trigger event occurs.

The possibility of writing down CoCos or converting them into ordinary shares is what makes these instruments a loss absorbing mechanism in either a gone concern (resolution) or going concern situation. Another feature is their priority ranking relative to common shareholders, the matter at the crux of the debate that ensued after the Swiss authorities' decision when intervening Credit Suisse to write down the troubled bank's CoCos in full while leaving the shareholders with a minimal claim on the bank.

To analyse this dual loss absorbing capacity (going concern and gone concern), note that these instruments come with two types

> CoCos come with two types of clauses, quantitative and qualitative, as regards the triggering of loss absorption.

> “Activation of the qualitative trigger for stability and public support purposes was the qualitative circumstance invoked by the Swiss authorities in imposing the full write-down of Credit Suisse’s CoCos, while its shareholders maintained a minimum claim on the bank via an exchange of their shares.”

of clauses, quantitative and qualitative, as regards the triggering of loss absorption.

Under the quantitative clauses, the bonds are automatically converted into ordinary shares if the issuer’s CET1 capital fall to the so-called trigger level, which is established at 5.125% of its total risk-weighted assets under prevailing regulations. That 5.125% is a general regulatory floor under which no issue’s trigger may lie. What commonly happens, however, is that the entities set the trigger at the minimum level of prudential capital required of each, as set by the supervisory authority in the course of the supervisory review evaluation process (SREP).

In addition to this quantitative trigger, CoCo issues also feature qualitative or discretionary triggers. The purpose of these is to enable capital reinforcement in order to retain trust in a going concern context, prior to reaching the point of non-viability, so factoring in the potential time lag in effectively measuring capital levels. The decision as to whether to activate the qualitative CoCo write-down or conversion trigger is up to the relevant authority (supervisory or resolution), generally on the basis of considerations around financial stability and trust, or the need for public support to maintain that trust.

In the event of the latter (public support to maintain trust), the Basel III framework permits the full write-down of any CoCos before CET1 capital, something which is not possible in the event that the quantitative trigger is activated.

Indeed, that was the circumstance (activation of the qualitative trigger for stability and public support purposes) that was invoked by the Swiss authorities in imposing the full write-down of Credit Suisse’s CoCos, while its shareholders maintained a minimum claim on the bank via an exchange of their shares for UBS shares under the scope of the merger of Credit Suisse into UBS, a transaction for which public support was pledged.

Impact on CoCos of the Credit Suisse bail-in

Despite the fact that the Swiss authorities’ decision was aligned with the Basel framework, it had a seismic impact on the CoCo market, which interpreted the write-down decision as a breach of a creditor hierarchy perceived as unquestionable in terms of financial logic, creating a degree of stigma around CoCos, which, in addition to financial risks were now seen to present regulatory risk and what was harder to digest, discretionary regulatory risk.

> “Albeit aligned with the Basel framework, the Swiss authorities’ decision had a seismic impact on the CoCo market, which interpreted the write-down as a breach of creditor hierarchy perceived as unquestionable in terms of financial logic, creating a degree of stigma around CoCos.”

> “While CoCos were already rendered an intrinsically complex security, the decision by the Swiss authorities injected additional complexity and uncertainty around the product.”

Recall that a CoCo is equivalent from the investor standpoint to a perpetual bond that pays a very high coupon in exchange for which the investor grants the issuer two very different options.

The first is the option to call the bond early, generally at its face value, during any of the call windows (annual or shorter) established from year five after issuance. The issuer's decision as to whether or not to call the bonds will depend on market conditions, as the banks typically call their CoCos in the event they can place new securities on the market at more attractive terms than the CoCos to be redeemed. This option therefore implies market risk for the investor, a risk that encompasses generic factors (rates, market sentiment, *etc.*), as well as entity-specific risks (risk premium, capital adequacy, *etc.*).

The second option extended by a CoCo investor is the option to write down or convert its bonds into ordinary shares in the event of activation of any of the quantitative or qualitative triggers. This second option (a put bought by the issuer) clearly implies tail risk for the investor with low probability of materialisation but highly adverse implications, as the CoCo holder would very likely stand to lose its entire investment in that event.

The existence of both options (and very particularly the second one), coupled with the bonds' high coupons, makes CoCos extraordinarily asymmetric in terms of investor return scenarios. In normal conditions, they will generate a very handsome return, albeit during an uncertain length of time on account of the issuer's call options and the possibility of triggering limits on coupon payments (the so-called maximum distributable amount, or MDA). Uncertain above all due to the residual risk of occurrence of a trigger event and the loss of virtually the entire investment.

That significant asymmetry (high coupon under normal circumstances but scope for total write-down in the event of adverse developments), coupled with the intrinsic complexity of their hallmark optionality, is what has characterised CoCos as complex products, not appropriate for retail investors, from the outset.

While the existence of the two options already made CoCos a complex security, the decision by the Swiss authorities injected additional complexity and uncertainty around the product associated with the interpretation (somewhat discretionary and different from one jurisdiction to another) of activation of the principal write-down clause before a shareholder bail-in.

The Credit Suisse event happened during the weekend of 19 March. The price of the troubled bank's AT1s had already been hit particularly hard during the previous fortnight as a result of the regional banking crisis in the US, unleashed by the failure of Silicon Valley Bank. Despite having corrected by 10% before the Swiss regulator took its decision regarding Credit Suisse, the announcement prompted the CoCo market to

> “Regulators realised that for the instrument to survive, the SNB's decision could not be seen by investors as standard practice.”

> “Since the bail-in of Credit Suisse, virtually all the banks have exercised their call options, sending investors a very positive message in the process.”

shed another 8%, for a cumulative correction of over 17% in just two weeks.

Although AT1s had always proven volatile during episodes of risk aversion, this situation was very different, with some observers making apocalyptic predictions that the SNB's decision would spell the end of the market for CoCos.

Recovery from the stigma: Contributing factors

In contrast to those dire warnings, CoCos have since staged a gradual yet intense recovery, punctuated by a year-end rally (when all risk asset classes performed exceptionally well), with the credit spread between CoCo and tier 2 instruments returning to pre-March crisis levels and, in terms of prices, to just 3% below that threshold (a gap that is attributable to the increase in risk-free rates).

Several factors have contributed to the gradual recovery in CoCos, enabling this asset class to shake off the stigma generated in March:

Firstly, following the decision by the Swiss authorities (SNB), both the ECB and the Bank of England issued releases suggesting that AT1 holders should only absorb losses after shareholders have lost their entire investment. That was a statement of intent: the regulators realised that for the instrument to survive, the SNB's decision could not be seen by investors as standard practice.

In parallel to the support received from the supervisory authorities in other European jurisdictions (ECB and BoE), it was vital for the market to witness all entities with call windows looming in the following quarters being able to exercise those options. Expectations were exceeded in that respect. While the market believed that some of the bigger banks with stronger credit ratings would be able to exercise their call options, there were considerable doubts about the less creditworthy entities' ability to do so. However, virtually all the banks have since exercised their call options, sending investors a very positive message in the process. By doing so, the banks exhibited their commitment to bowing to market discipline: to exercise their call options they had to issue new CoCos. As a result, market supply did not shrink. What the banks did do was to subject themselves to market scrutiny by accepting the terms of new issues rather than clinging to their existing deals. Moreover, to call their CoCos, the issuers had to first get authorisation from the supervisor, providing a further confidence boost.

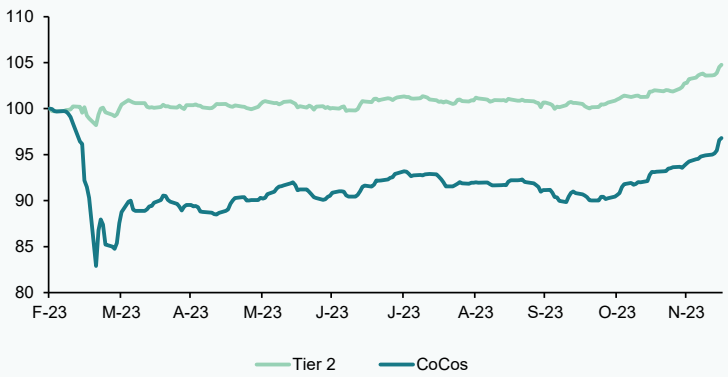
The above developments are intrinsically tied to the momentum observed in the primary market. While that market initially closed to new issues as it awaited a reduction in credit spreads and recovery in confidence, it was not too long before it reopened. The first issues took place in June, when BBVA and the Bank of Cyprus tapped the CoCo market. The Bank of Cyprus issue was particularly surprising as it signalled market appetite for issuers with very diverse credit risk profiles.

> “While that market for CoCos initially closed to new issues as it awaited a reduction in credit spreads and recovery in confidence, it was not too long before it reopened.”

Exhibit 1a

Relative performance of the Tier 2 bond and CoCo markets

Indices (28/02/23 = 100)



Source: ICE and Afi.

Exhibit 1b

Difference between the CoCo OAS and Tier 2 bond spreads

bp

Source: ICE and Afi.

Demand was very strong for those first issues, a trend that continued throughout the second half of 2023. One of the highest-profile issues was that of UBS, which, despite the events earlier in the year, issued 3.5 billion dollars of CoCos that were 10 times oversubscribed in November (Demand: 36 billion dollars).

Lastly, it is clear that the improvement in the banks' fundamentals, marked by

extraordinary profit growth, has helped matters. Indeed, that has had two important consequences: (i) virtually all of the issues reaching the market since March correspond to the refinancing of called issues (*i.e.,* scant net new issuance); and, (ii) some CoCos have been cancelled without replacement, as the banks have been able to meet their capital requirements via organic capital generation.

In short, the recovery in the AT1 market is very good news for the banking sector. CoCos have been a crucial tool in bank recapitalisation, especially at times when raising capital by issuing shares would have implied hefty shareholder dilution, further undermining the banks' share price performance. As a result, this instrument should continue to give the banks flexibility when planning their capital strategies.

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Ángel Berges and Salvador Jiménez. Afi

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The strategic complementarity between competition and industrial policy

Despite broad-based agreement within economic circles regarding the drawbacks related to the application of industrial policies, recent global challenges have reopened the debate over their potential benefits. If public sector intervention is indeed necessary, it should be aligned to encourage competition and innovation.

Javier Asensio and Juan José Ganuza

Abstract: Economists have traditionally been skeptical over the use of industrial policy. However, tech progress, climate change and geopolitical tensions have once again placed industrial policy at the center of the political debate. Without taking a position in favor or against industrial policy, it is important to note that, if public sector intervention is indeed necessary, it should be done respecting competition policy and innovation, not least within the EU, where there is added pressure to execute NextGenEU. To achieve sustainable economic development and minimize negative impacts on the market, industrial policy should be limited to situations in which a market failure is identified and implemented through competitively neutral mechanisms, without discrimination regarding sectors, companies or technologies.

Introduction

By industrial policies, we should not only understand public sector actions aimed at the manufacturing sector. As defined by Juhasz, Lane and Rodrik (2023), industrial policy encompasses all public sector actions that aim to transform the economic structure with the aim of stimulating economic growth. By

its nature, the scope of industrial policy may partially coincide with that of regional policy or economic development policy.

A fundamental characteristic of industrial policy is its discretionary nature. As it aims to reform the sectoral economic structure, it promotes certain sectors at the expense of others. Even when industrial policy tries to be "horizontal" and addresses problems that may be common to the economy as a whole, such as education or infrastructure, it will continue to have a "vertical" component, since not all sectors benefit in the same way.

Industrial policy can use different instruments with the aim of helping companies: from subsidies or favorable credit lines to tariff protection or import quotas, even reaching partial or total public firm ownership in sectors considered as "strategic".

The debate about the benefits or harms of industrial policy has evolved over time. Juhasz, Lane and Rodrik (2023) group the favorable arguments into three categories: the existence of positive externalities (such as learning externalities, but they also include here the arguments related to national security or the provision of "good jobs" in the sense of Rodrik and Sabel, 2022); the solution of coordination problems (when two sectors are mutually dependent, so that neither develops if the other does not); and, the localized provision of certain public services (such as infrastructure) to promote regional development.

Criticisms of industrial policy rarely call these arguments into question but are based on two practical issues: the limitations of information with which the public sector must make these decisions and, additionally, the risk of it being captured by private interests. These criticisms are usually summarized in the argument that "the government chooses the winners", which Tirole (2023) complements with the tagline "and the losers choose the government" to emphasize the risk of capture in the design and implementation of this policy.

Although the experience in the application of industrial policies can show successes (among which the case of South Korea is commonly cited, see Choi and Levchenko (2021), there are numerous failures of greater or lesser magnitude. Protectionist policies in Latin America with the objective of "import substitution" and helping the development of "infant industries" have not had the same effects as in Asia. In France, although the development of the Toulouse aeronautical hub around Airbus and Aérospatiale can be considered a success, projects such as Concorde, Thomson or Bull have been failures. In Spain, the policy carried out by the National Institute of Industry during the 1970s, consisting of the nationalization of companies in very diverse sectors (Myro, 1987), only allowed to save a very limited number of them with a high cost in terms of public funds.

At the end of the last century, the experience of failures in the application of industrial policy led to a consensus among economists in their critical consideration of it. Against this position, the one defended by authors such as Rodrik (2004) stands out, who argues that a well-designed and limited industrial policy is necessary: one which provides companies with the information that allows them to expand into new markets and resolves coordination problems. Mazzucato (2018) is also in favor of

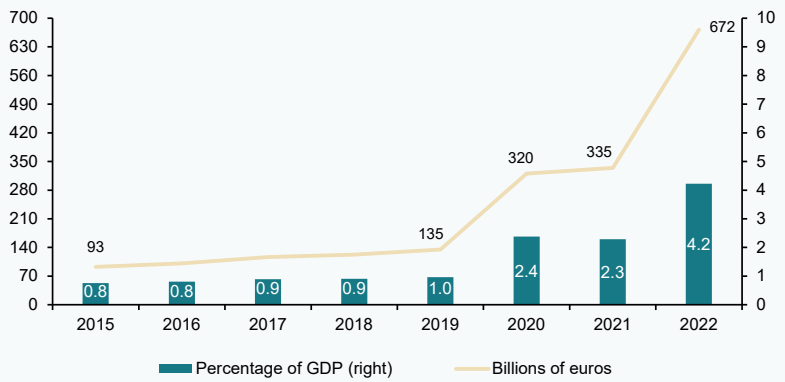
> "The change in the perception of the desirability of industrial policies derives from a confluence of various factors, but mainly the perception that the benefits of international economic integration are undermined by the application of protectionist policies or support for certain sectors by certain countries."

> “Preserving competition should be the axis in the application of industrial policy.”

public sector intervention through long-term plans (“missions”) that promote innovative activities.

However, in recent years, there has been a radical change in the perception of the desirability of carrying out industrial policies because of the confluence of various factors. The main one is the perception that the benefits of international economic integration are undermined by the application of protectionist policies or support for certain sectors by countries such as China. In essence, these industrial policies differ in their magnitude from those carried out by other Far Eastern economies previously, but they have caused a rethinking of the rules of the game in international trade that also affects industrial policy. In parallel, the need to carry out large-scale coordinated investments to address challenges such as climate change or the digital revolution has put on the table, both in the United States and the European Union, the need to support “strategic” sectors. Added to this, in the European case, is the need to quickly execute the investments associated with the NextGenEU funds negotiated during the COVID-19 pandemic. Spending 750 billion euros (140 billion euros in the Spanish case) in a relatively short period of time can generate inefficiencies in the sectoral prioritization procedure. Torres (2023) shows the increase in state aid in Europe since 2020 (see Exhibit 1). Finally, in the case of the EU, it is necessary to take into account the debate that occurred following the decision of the European Commission not to authorize the merger between Alstom and Siemens in 2019, as this would have given rise to a monopoly situation in the supply of high-speed railway material. The governments of France and Germany, which had explicitly supported the merger, have since demanded a change in the rules of competition policy so that it becomes subject to the objectives of industrial policy.

Exhibit 1 **State aid in the EU**



Sources: Torres (2023). Registered state aid by the European Commission; Eurostat and Funcas.

For all these reasons, the point is not to position oneself for or against industrial policy, but rather to help it be designed in the best possible way. We run the risk that the conclusions of this debate call into question the progress that has been made in recent decades in the application of competition policy. Given that having more competitive markets clearly benefits society as a whole (the only harm is from those who obtain excessive rents as a result of their market power), competition is the best mechanism available to guarantee growth based on innovation and reducing inequality through access to a greater number of goods and services at lower prices. Therefore, preserving competition should be the axis in the application of industrial policy. Thus, in this article, we defend that industrial policy should be carried out with the objective of improving competition in the markets, using the criteria set out below.

Competition in the market: The ingredients and goals of the new European industrial policy

An example of the complex relationship between competition and industrial policy is provided by the growth of the electric vehicle (EV) market in China. In this case, the success of industrial policy based on government aid is also due to a very competitive internal market that acts as a driver of innovations in the sector. Chinese automobile manufacturing companies have grown very significantly in recent years. A combination of subsidies, favorable credit, protection of their market and public ownership has allowed them to completely dominate their EV market and compete successfully in the rest of the world. Aghion *et al.* (2015) empirically demonstrate the complementarity between market competition and the effectiveness of industrial policy. Using data from the Chinese economy, these authors show that public support has more positive effects the more competition exists in the sector to which it is directed. Their work also shows that subsidies can even be harmful when the level of competition is low.

The main implication of this analysis is that European industrial policy must serve to strengthen the internal market, avoiding putting at risk competition within it (Petropoulos, 2019). To achieve this objective, a first step is to make industrial policy compatible with the regulation of state aid, and particularly with its fundamental principle of limiting public subsidies to those situations in which there is a market failure (such as externalities, information asymmetries, *etc.*). Furthermore, this requirement should be interpreted as a necessary but not sufficient condition: if markets operate with sufficient competition, optimal conditions exist for innovation and the creation of value that benefits consumers, making intervention unnecessary. But if there is a market failure, we have to be sure that public intervention will improve the situation. In other words, the distortions associated with public aid must be sufficiently compensated by efficiency gains and/or the restoration of the competitive process. A corollary of the above is that government interventions should be limited to those strictly necessary to avoid market failures, reducing their impact as much as possible and minimizing distortions to competition.

A common argument to defend the application of industrial policy is the one based on the existence of positive externalities that, due to coordination failures, are not fully exploited or are exploited in an insufficient manner. This argument gives rise to interventions such as the generation of clusters, support for investment in innovation processes or emerging technologies, or even the development of new industrial sectors that, either due to the existence of increasing returns or other types of barriers, have not

> “European industrial policy must serve to strengthen the internal market, avoiding putting at risk competition within it.”

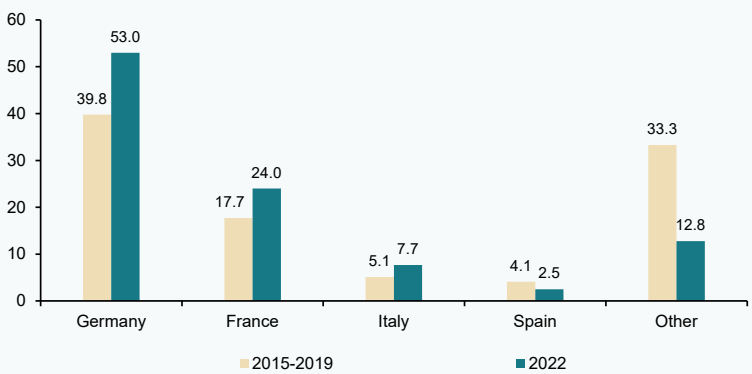
> “In addition to harming consumers, increasing market concentration can reduce incentives for innovation and, therefore, harm the conquest of external markets in the long-term.”

been developed. An successful example within this last category would be the case of Airbus, which, in addition to generating industrial activity, allowed competition to be introduced in the high-capacity aircraft market. Currently, the paradigmatic example of promoting industrial developments that the market does not generate on its own are microchip factories. The non-existence of microchip production in Europe was considered one of the main triggers of the industrial crisis associated with the breakdowns in the supply chain.

Although the analysis of this type of intervention should not consider possible distortions of a pre-existing market, it should take into account the opportunity cost of public funds as well as the equity criteria used in their allocation. To avoid misuse of public funds (including failed projects known as “white elephants”), Tirole (2023) proposes involving in decision-making both high-level experts and risk-taking private sector agents. It should be emphasized that these types of cost-benefit analysis of state intervention are complex. They must take into account the fact that if the market does not generate a certain type of industrial activity, it may be due to the existence of important limitations to its development.

The problem of inequality in the allocation of funds for industrial policy can be analyzed from different perspectives. Geographically, it is necessary to prevent differences in the financial capacity of countries determining where new industrial activities are developed. This seems to a large extent to be the current situation. Torres (2023) shows that France and Germany account for most of the state aid, with the latter country accounting for

Exhibit 2 **Percentage share of total authorized state aid in the EU**



Sources: Torres (2023). Registered state aid by the European Commission; Eurostat and Funcas.

“ The existing consensus regarding the benefits of the multilateral growth model based on the development of international trade and multinational investment seems to be broken. ”

more than half of it in 2022 (see Exhibit 2). Therefore, it would be desirable that decisions on the location of investments be made at the sector level and centralized for the whole EU. The decision process should consider, in addition to technical and efficiency criteria, positive discrimination factors that help the economic convergence of the different European territories.

Support to a given sector can be carried out using a wide set of instruments. Both to facilitate ex-post evaluations and to allow citizen's democratic control, industrial policy must be transparent in showing what tools it uses. In this sense, both the impact of subsidies on public accounts and their opportunity cost are relatively easy to evaluate. On the contrary, indirect instruments such as the distortion of regulatory standards or allowing mergers that substantially increase market concentration, can give rise to significant distortions and costs, in terms of efficiency, that are not transparent. For example, in addition to harming consumers, increasing market concentration can reduce incentives for innovation and, therefore, harm the conquest of external markets in the long-term.

As shown by Miravete *et al.* (2018), the negative effects of distorting regulations to favor certain industrial sectors should not be underestimated. These authors analyze how in the 1990s the European Union favored European diesel car manufacturers, who had a technological advantage, by reducing taxes on that fuel and, mainly, reducing NOx emissions standards. Therefore, in the US (with stricter standards) cars with diesel engines had a marginal market share, while in most European countries they exceeded 50%. Given the evidence on the impact of NOx particles on the development and evolution of lung diseases, it can be considered that the industrial success of diesel in Europe occurred largely at the expense of the health of European citizens. Miravete *et al.* (2018) estimate that this regulatory distortion, invisible to consumers but with significant health costs, was equivalent to increasing trade tariffs on non-European gasoline car producers by between 200% and 300%.

Industrial policy must also be neutral in sectoral and technological terms. Governments should not bet on certain companies, technologies or sectors directly through vertical industrial policies. It is preferable to direct interventions directly to correct the market failure without prejudging technological or business solutions through horizontal industrial policies. For example, the reduction of emissions and the promotion of less polluting technologies can be incentivized without imposing a specific technological solution, as the EU's Emissions Trading System does. In some cases, however, it may be necessary to allocate funds to specific companies or consortia to develop specific innovation projects, such as those aimed at the production of EV batteries. In these situations, funds must be allocated using non-discriminatory competitive procedures.

The crisis of multilateralism and the European strategic response

The existing consensus regarding the benefits of the multilateral growth model based on the development of international trade and multinational investment seems to be broken. A fundamental element of this model was to prevent industrial policies, and in particular, subsidies to companies, from generating distortions in trade relations. Thus, one of the functions of the World Trade Organization is to act as a forum to resolve disputes related to this issue. A good example of its usefulness is the EU-US agreement regarding the support that, explicitly or implicitly, both Boeing and Airbus received. That agreement avoided the

extension of trade retaliation in the form of tariffs on goods that had nothing to do with that market, such as agricultural products.

The change in the views about such a development model has different causes. On the one hand, there is a general perception that a new main actor (China) does not play by the same rules and applies industrial policies that favor its firms. Additionally, the groups most harmed by globalization and the development of foreign trade have politically expressed their opposition to the model. For example, the loss of manufacturing jobs in developed countries has generated electoral support for protectionist policies. Finally, the need to carry out large-scale investments to make possible the decarbonization of production processes in practically all economic sectors also acts as a justification for greater public intervention. To this list we could add the request for the so-called "strategic autonomy", which in economic terms implies a distrust of dependence on supplies located in other countries. Logically, this position is antithetical to that which defends specialization according to the theory of comparative advantage.

In the case of industrial policy, the most relevant event has been the implementation by the US of a business aid program ("Inflation Reduction Act") that promotes issues such as the purchase of electric vehicles by conditioning the subsidy on the local manufacturing of a certain weight of components. In this way, it acts as a clear incentive for industrial relocation. The EU has reacted by relaxing its restrictive regulations on state aid and allowing national governments to allocate subsidies to companies that are at risk of relocating to the US. A very recent example of such aid has been the one that the German government has destined for the Swedish battery manufacturer Northvolt, which will receive 902 million euros in exchange for the construction of a new factory in north Germany.

Strategically, subsidizing national production or setting tariffs between countries is a problem very similar to the famous prisoner's dilemma. It is a dominant strategy for each country to act non-cooperatively by implementing protectionist policies. However, this balance of high tariffs and subsidies' war generates less welfare than a cooperative solution based on greater trade between countries. This is the logic and advantage of the multilateral model. However, the non-cooperative equilibrium re-emerges when countries such as China unilaterally deviate from the cooperative solution with subsidies that discriminate in favor of domestic production.

This has been the path chosen by the EU by opening the possibility that member countries can respond to the threat of a company relocating due to US subsidies with similar aid. This policy raises several questions, both regarding the location of aid and its magnitude. The internal market may be at risk if only countries with sufficient financial capacity can react to a possible relocation of their companies to the US.

Regarding the magnitude of the subsidy, it is surprising that the mechanism designed by the European Commission defines its maximum limit only as a percentage of the total investment. [1] A more detailed analysis could calculate the minimum magnitude necessary to avoid relocation in each case, comparing it with the benefits that European society as a whole obtains in exchange for the aid. This analysis should consider both

" The EU has reacted to the Inflation Reduction Act by relaxing its restrictive regulations on state aid and allowing national governments to allocate subsidies to companies that are at risk of relocating to the US. "

the distributional effects (in an extreme case it could happen that the only beneficiaries of the aid were the owners of the company) and the implications in terms of competition in the final markets.

Conclusions

Economists have traditionally been skeptical about the desirability of industrial policy. However, technological developments, the challenge of climate change and a different international relations environment have once again placed industrial policy at the center of the political debate. This article does not take a position in favor or against industrial policy, but rather advocates that, if it is implemented, it should be done respecting the principles of competition policy and not put the single European market at risk. Industrial policy should be limited to situations in which a market failure is identified and implemented through competitively neutral mechanisms, without discrimination regarding sectors, companies or technologies.

Notes

[1] See details here: https://competition-policy.ec.europa.eu/s ystem /files/2023-10/ overview_of_TCTF_section_2.8_schemes.pdf

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Intangible assets and competitiveness of Spain's manufacturing industry: An international comparison

The intensity of the Spanish manufacturing sector's investment in intangible assets is practically half of the European average and this gap has widened since the financial crisis. For the Spanish manufacturing industry to gain competitiveness at the international level, it must commit strongly to digitalisation, which requires closing the gap in investment intensity in intangibles relative to its competitors.

Joaquín Maudos

Abstract: The EU and Spanish governments' strategic commitment to reindustrialisation, setting the target of having 20% of GDP come from manufacturing, requires increased competitiveness and, by extension, further progress on digital transformation. Digitalisation is underpinned by investment in intangible assets such as R&D, software, branding, design, employee training and organisational capital. In Spain, the intensity of the manufacturing sector's investment in intangible assets is practically half of the European average (10.7% *vs.* 20% of GVA), a worrying trait that is repeated all across the various areas of manufacturing activity. In addition, at least since the financial crisis of 2008, the gap in investment intensity separating Spain from the EU has widened. As a result, if the Spanish manufacturing industry is to gain competitiveness at the international level, it must commit strongly to digitalisation, which requires closing the gap

in investment intensity in intangibles relative to its competitors. In that context, the NGEU funds, whose aims include digitalisation, with specific financing for several strategic investment plans within the industrial sector, are a major opportunity.

Foreword

The European Union has been aiming to lift the weight of the manufacturing sector to 20% of GDP for many years. There are several factors driving this objective: the manufacturing industry is one of the cornerstones of European trade, accounting for the largest share of exports; it is more intensive in innovation than other sectors, as borne out by its share of total investment in R&D; it presents higher productivity levels per employee (and therefore higher pay), so that as its weight in the overall economy increases, so does the economy's overall productivity; and it has important knock-on effects on other areas of the economy.

For those same reasons, the Spanish government wants the country's manufacturing industry to represent 20% of GDP by 2030. As of 2022 (the most recent figure available) the sector was trailing well below that threshold, at 11.4% of GDP (15.9% including the energy sector). The EU's 20% target (initially for 2020) was set down formally in the so-called General Guidelines for Spain's New Industrial Policy to 2030, which establish a policy focused on reindustrialisation (the sector having lost relevance to the services sector in recent years) by leveraging innovation and digitalisation to gain competitiveness, while safeguarding the environment throughout. The reversal of globalisation in recent years (in a context of global supply chains strained by geopolitical risks) and the resurgence of protectionism to ensure national security are bringing the goal of increasing the weight of manufacturing in the economy even more to the fore.

To make the industrial sector more competitive, the Spanish government has defined 10 lines of initiative, the first of which is digitalisation. As specified in the Guidelines, the incorporation of technologies such as artificial intelligence, the internet of things, 3D printing and robotics into productive processes and industrial products is critical. And a key characteristic of all these technologies is the fact that they require investment in intangible assets such as R&D, software, databases, design, training, and organisational capital. Therefore, to achieve the 20% target and increase the competitiveness of the manufacturing industry, it is necessary to invest more in these assets.

Indeed, the richest and most productive economies are characterised by the intensity with which they use intangible assets. As astutely noted by the COTEC Foundation and the reports it sponsors on the intangible economy, [1] "intangible assets are characteristic of the knowledge economy and investing in them helps lift productivity and living standards". That same message applies to manufacturing and hence the importance of supporting investment in these types of assets, which are the source of productivity gains.

That is the backdrop for this paper whose aim is to provide a comparative assessment of the intensity with which the Spanish manufacturing industry invests in intangible assets by comparison with other countries. That analysis is undertaken at the aggregate level for the overall manufacturing industry and by area of activity. In both instances (aggregate and by area of activity) we also analyse the breakdown of the stock of investment in intangible assets by asset type. The data encompasses the assets classified as investments in the national accounts (that are therefore included in GDP), as well as other assets that despite not computing as part of GDP are extremely important to boosting the sector's competitiveness.

Investment intensity in intangible assets

Both the Spanish economy and its manufacturing sector suffer from low productivity by comparison with other developed economies and that low productivity partly explains the gap in GDP per capita with respect to those economies. In

> "GDP per capita in Spain is 18% below the eurozone average (2022 data in PPS euros), labour productivity (per hour worked) is 15% lower and in manufacturing, productivity is similarly 15% below the eurozone average."

fact, GDP per capita in Spain is 18% below the eurozone average (2022 data in PPS euros), labour productivity (per hour worked) is 15% lower and in manufacturing, productivity is similarly 15% below the eurozone average.

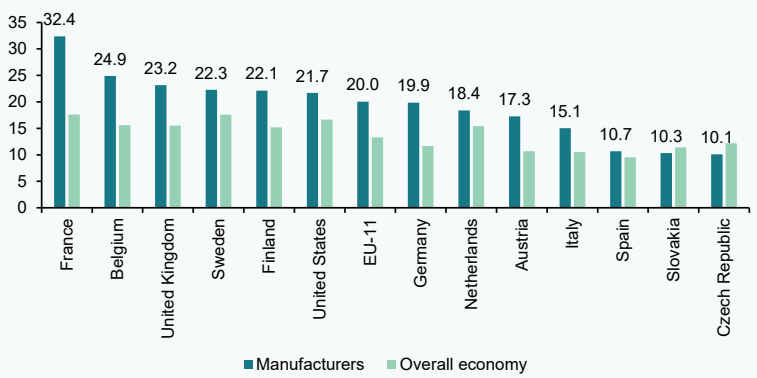
In order to increase productivity, and thereby competitiveness, Spain needs to advance in digital transformation, which requires investing in intangible assets. As shown in Exhibit 1, investment intensity in intangibles [2] in the Spanish manufacturing industry is 10.7% (as of 2020, the most recent figure available), which is virtually half of the average for the European countries for which that same information is available (EU-11). Of those 11 countries, Spain ranks only ahead of Slovakia and the Czech Republic and by a very small margin. We are talking about investment/GVA ratios that bear no comparison with those of Germany (19.9%), the UK (23.2%) or France (32.4%), to name a few examples. With the exception of the two countries at the tail end of the intensity ranking, in the other countries, the manufacturers report investment/GVA ratios that are above their national averages. However, in Spain, the difference in investment intensity between the manufacturing sector and the overall economy is very small (10.7% *vs.* 9.5%), at just 1.2 pp, compared to an average of 6.7 pp in the EU-11.

Another problem presented by the Spanish manufacturing industry by comparison with the European sector is the fact that the distance with which it lags in intangible investment intensity, far from narrowing, has actually widened in recent years, at least since the financial crisis of 2008. That year, investment intensity in Spain was 9.7%, 6.8 pp below the EU-11 average (16.5%). Twelve years later, in

Exhibit 1

Ratio of investment in intangible assets to GVA, 2020

Percentage



Source: COTEC Foundation-Ivie (2023) and author's own elaboration.

> “Intangible investment intensity in the Spanish manufacturing industry (10.7% of sector GVA) is barely over half of the European average (20%) and the gap with that average has widened sharply since the financial crisis of 2008.”

Spain that ratio has increased by just 1.2 pp, compared to growth of 3.5 pp in the EU-11. As a result, the gap has widened from 6.8 pp in 2018 to 9.3 pp in 2020. The 1.2 pp increase in intensity in Spain contrasts with increases of over 3.5 pp in Germany, France, the UK, and the US, for example.

Which areas of the manufacturing industry invest more in intangibles?

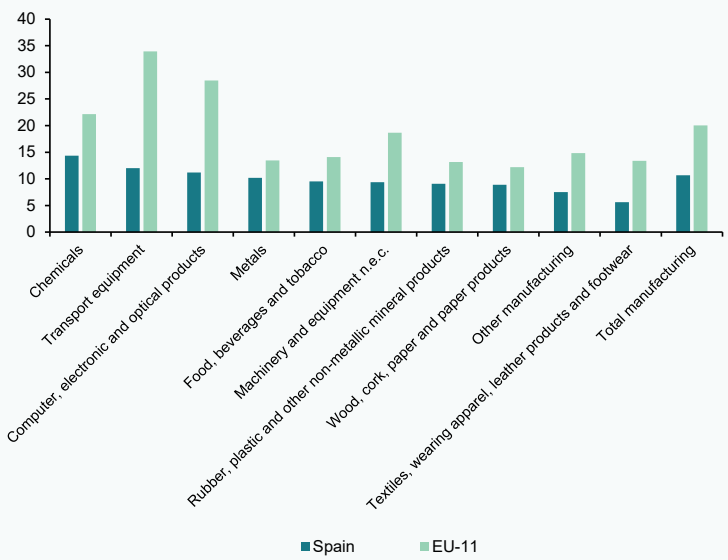
The information at hand allows us to break out the analysis to 11 areas of activity, as depicted in Exhibit 2. [3] Focusing on Spain, there are considerable differences in intangible investment intensity, ranging from a ratio of 14.4% in the chemicals industry to just 5.6% in the textiles, leather, and footwear sector. Above the national average of 10.7% lie, in addition to the manufacture of chemicals, the manufacture of transport equipment (12%) and the manufacture of computer, electronic and optical products (11.2%).

A worrying pattern is the fact that all areas of manufacturing in Spain invest less intensely in intangible assets than their European

Exhibit 2

Ratio of investment in intangibles to GVA by manufacturing activity, 2020

Percentage



Note: The exhibit orders the sectors from highest to lowest investment intensity in Spain.
Source: COTEC Foundation-Ivie (2023) and author's own elaboration.

> "It is worrying that Spain invests less intensely in intangible assets than its European counterparts in all areas of manufacturing, investing around a third as much as its European peers in three activities: transport equipment; computer, electronic and optical products; and textiles, leather, and footwear."

counterparts, with the EU-11 ratio virtually tripling Spain's numbers in three activities: transport equipment (33.9% in the EU-11 *vs.* 12.0% in Spain), computer, electronic and optical products (28.5% *vs.* 11.2%) and textiles, leather, and footwear (13.4% *vs.* 5.6%). In the best performing sectors, the gap is still 3.3 pp: metals (13.5% *vs.* 10.2%) and wood, cork, paper, and paper products (12.2% *vs.* 8.9%).

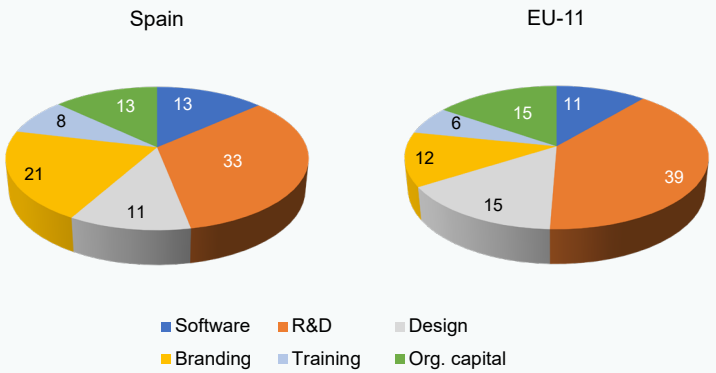
Breakdown of investment in intangibles by asset type

To analyse the composition of the stock of investment in intangibles by asset type, we use six categories: software, R&D, design, branding, employee training and organisational capital. R&D accounts for the highest share of the total for both the Spanish and European manufacturers: 33% of the total in Spain and 39% in the EU-11. The next most important category, at a considerable distance, is investment in branding (21% in Spain), whereas investment in design and organisational capital are the second most important categories in the EU-11 (15%). In Spain, investment in software and organisational capital account for similar shares of the pie (13% of the total apiece), while investment in design (11%) is a little higher than investment in employee training (8%). The biggest difference in the asset breakdown between Spain and the EU-11 is the relatively higher share of investment in branding in Spain compared to Europe (8.3 pp more). In contrast, investment in R&D is 6 pp lower in Spain.

Focusing on the Spanish manufacturing industry there are considerable differences in the make-up of that stock of investment from one activity to another. In most of them, investment in R&D tends to account for the biggest share, representing over half of the total in the manufacture of coke and refined petroleum products and the manufacture of chemicals. Branding is the most important asset class in the food industry, accounting for 32% of its investment in intangibles, which is more than in any other. The same is true of the textile, leather, and footwear sector, where investment in branding represents 29% of the total, ahead of investment in R&D, at 23%. In the manufacture of metals, investment in R&D takes the top spot (34%), as is the case in the manufacture of computer products (32%), equipment and machinery (33%) and transport equipment (27%). Investment in software is highest in the wood and cork sector (27%), whereas design reaches its maximum value in transport equipment (25%), branding in the food business (32%), training in transport equipment (11%) and organisational capital in textiles, leather, and footwear (18%).

> "In the Spanish manufacturing sector, the weight of investment in branding in the total stock of intangible assets is 8.3pp above the EU-11 average (20.5% *vs.* 12.2%), meanwhile the investment in R&D is 6pp lower in Spain (33% *vs.* 39%)."

Exhibit 3 **Percentage breakdown of investment in intangibles by asset type, 2020**



Source: BBVA Foundation-Ivie (2023) and author's own elaboration.

Conclusions

If Spain wants to reindustrialise and lift the weight of its manufacturing industry to 20% of GDP (a target it is far from today), it should increase investment intensity in the intangible assets that are necessary to enable digital transformation and unlock productivity gains. The starting situation is not good as the ratio of investment to GVA is just 10.7% in the Spanish manufacturing industry, which is half the European average. This pattern is of particular concern as it is common to all areas of manufacturing activity. With no exception. In some areas, investment intensity is barely a third of the European equivalent. It is also worrying to note that the gap separating investment intensity in Spain from the European average has widened, at least since the start of the financial crisis of 2008.

Spain cannot afford to miss the digital transformation train and let the extraordinary financing opportunity presented by the Next Generation European Union (NGEU) funds escape its grasp. A significant share of those funds is targeted at digitalisation and some of that money is earmarked to manufacturing. Some of the NGEU funds have been articulated into strategic sector plans (akin to the Important Projects of Common European Interest concept and known as PERTEs for their acronym in Spanish); of the 12 PERTEs approved, several are specific to the manufacturing sector: the electric vehicle, renewable energy, food industry, ship industry and aerospace sector plans. A step in the right direction is the creation of support programmes such as the Connected Industry 4.0 initiative whose aim is to spur digital transformation across the Spanish manufacturing industry by means of broad joint and coordinated action from the public and private sectors.

Indeed, public-private partnerships are needed to boost investment in intangibles and create the right conditions for encouraging this class of investment (such as tax relief). One of the impediments to investment in intangible assets is the lack of access to financing (especially for SMEs) as these assets are harder to value for collateral purposes. Development of venture capital and the generation of expertise in valuing these assets in the financial sector are some of the ingredients needed to improve access to financing for investment in intangible assets.

Notes

[1] Refer, for example, to Mas and Quesada (2019).

[2] Since intangible assets include certain assets that the national accounts do not treat as assets, total investment is expressed as a percentage of adjusted GDP, *i.e.,* GDP including investment in such assets.

[3] The manufacture of coke and refined petroleum products is excluded on account of presenting negative GVA in 2020, so distorting the investment intensity analysis.

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The major central banks and the fight against climate change: Assessing the latest policy initiatives

While it is widely acknowledged that climate policy-making is the prime responsibility of governments, central banks are also taking steps to address climate change within their remits. That said, the extent to which central banks integrate climate risks into their work varies depending on each institution's respective mandate and domestic political preferences *vis-à-vis* climate change.

Emma Navarro and Judith Arnal

Abstract: While it is widely acknowledged that climate policy-making is the prime responsibility of governments, central banks are also taking steps to address climate change within their remits. An examination of the integration of climate change considerations into the operations of the European Central Bank (ECB), the Bank of England (BoE), and the Federal Reserve (Fed) highlights that both the ECB and the BoE are more proactive than the Fed in their commitments and policy measures to tackle climate risks. Notably, the BoE has pioneered several initiatives, while the ECB has recently made more significant advancements in other areas related to supervision and collateral rules. The extent to which central banks integrate climate risks into their work varies depending on each institution's respective mandate and domestic political preferences *vis-à-vis* climate change.

> “Climate change is considered one of the most acute challenges for our society, and the response of central banks has not been to stay on the sidelines.”

Introduction

Climate change is considered one of the most acute challenges for our society, and the response of central banks has not been to stay on the sidelines. While it is widely acknowledged that climate policy-making is the prime responsibility of governments, central banks are today taking steps to address climate-related financial risks (climate risks) within their remits, which typically include the responsibility for price stability, financial stability and the safety and soundness of financial institutions.

Central banks and supervisors have only recently started to consider climate change relevant to their mandates, but their involvement has gained momentum over the last years due to a growing recognition of the substantial risks that climate change poses to financial stability and the global economy. Their work in this area has been underpinned by international collaboration via different fora (G20, FSB, Basel Committee on Banking Supervision), with the Network of Greening the Financial System (NGFS) playing an instrumental role.

But are all central banks equally involved in the fight against climate change or do they follow different approaches? To answer this question, we explore how three of the largest central banks, the ECB, the BoE and the Fed, are integrating climate change into microprudential supervision, financial stability and monetary policy. Central banks have also engaged with different degrees of ambition in efforts to reduce their carbon footprint or to green their non-monetary policy portfolios. However, these aspects will not be covered in the article, as they are considered less relevant from a policy perspective.

Both the ECB and the BoE seem to go further than the Fed in their commitments and policy measures to tackle climate risks, with the BoE having been a first mover in many areas and the ECB having gone further in others. Yet, the Fed’s actions with regards to climate change have a more limited scope, mainly focusing on microprudential supervision and financial stability and not addressing monetary policy.

Does this situation solely reflect the decision of central banks, or could other elements help explain it? As we will argue, some of the climate related measures undertaken by central banks go further than their primary mandates and focus on supporting general economic policies. This, coupled with the challenging political situation in the United States and the apparent decrease in ambition in UK government’s climate policies, could explain why it is difficult for the Fed to take forward far-reaching measures when it comes to climate change, and why the BoE’s leadership in the matter seems to be losing momentum.

Microprudential supervision and financial stability

The work of central banks and supervisors on climate change began with its recognition as a source of financial risk, through both physical risks (such as extreme weather events) and

> “Both the ECB and the BoE seem to go further than the Fed in their commitments and policy measures to tackle climate risks.”

“ Out of the three institutions under consideration, the BoE has been the first mover, starting to consider climate-related financial risks as early as 2015. ”

transition risks (arising from the transition to a low-carbon economy). It was therefore understood that it is within each other their remits to ensure that the financial system remains resilient to these risks.

Early recognition and initial steps

Out of the three institutions under consideration, the BoE has been the first mover, starting to consider climate-related financial risks as early as 2015. In September that year, Mark Carney, the Bank's governor, delivered his famous speech [1] in which he alerted of the risks of climate change for the financial system and the possibility of a climate-driven systemic financial crisis. After a first report in 2015 focused on the insurance sector, in September 2018, the Prudential Regulation Authority (PRA) published a review of risks from climate change facing the UK banking sector [2] and set out a program of future work on climate risks. And in the *2019 Financial Stability Report,* [3] the Financial Policy Committee (FPC) undertook a top-down assessment of UK banks' exposures to physical and transition risks. In addition, the BoE's leadership is also visible in its role as one of the founding members of the NGFS in 2017, as well as its early adoption of a climate strategy and internal governance framework to deal with climate issues.

The ECB joined the NGFS [4] as a permanent member in May 2018, the year in which its climate work accelerated. Climate risks were identified [5] in the ECB Banking Supervision risk assessment for 2019. A special feature in its *November 2019 Financial Stability Review* [6] also assessed the impact of physical and transition risks.

The Fed still lags behind its peers in the integration of climate risks into its supervisory and financial stability roles, but its work seems gradually approaching the mainstream of G20 central banks. The Fed started in 2019 to publicly acknowledge the systemic nature of climate risks, a shift possibly influenced by discussions in international forums in which the institution participated. The Fed took an important step by formally joining the NGFS in December 2020, soon after the new Biden Administration took office. [7] In early 2021, the Fed created [8] two internal committee groups to enhance its understanding on climate risks: the Supervision Climate Committee (SCC), with a focus on supervised firms, and the Financial Stability Climate Committee (FSCC). The institution has repeatedly described its mandate regarding climate risks as *important, but narrow' and 'tightly linked to its responsibilities for bank supervision and financial stability*.

Supervisory expectations

In line with its pioneering role, in April 2019, the BoE became the first central bank to set out climate supervisory expectations. [9] They covered four key areas (governance, risk management, scenario analysis and disclosure) and called banks and insurers to effectively identify, measure, manage and

“ The Fed still lags behind its peers in the integration of climate risks into its supervisory and financial stability roles, but its work seems gradually approaching the mainstream of G20 central banks. ”

report on their exposures to climate risks. Since then, climate risks have been among the supervisory priorities of the PRA, which has provided further thematic feedback via two *Dear CEO letters,* incorporating observations from its supervisory processes. In its July 2020 letter, [10] the PRA highlighted some identified gaps in the entities' practices and set year-end 2021 as a deadline for firms to have fully embedded its expectations. From 2022, the PRA shifted from assessing implementation to actively supervising firms against climate expectations. In its October 2022 letter, [11] the PRA assessed that further progress in the implementation was still needed by all firms and warned that the wider supervisory toolkit could be used for those whose efforts are judged insufficient. This suggests that additional capital charges within the Pillar 2 capital framework might be eventually imposed.

In the euro area, the ECB-Single Supervisory Mechanism (SSM) published in November 2020 its guide on climate-related and environment risks, [12] setting out its supervisory expectations on risks management and disclosure. In 2022, the Bank launched a thematic review which involved assessing the institutions' climate risks strategies, governance and risk management frameworks and processes. Results of the exercise [13] were published in November 2022, together with a code of good practices [14] that institutions could use to align their practices with the ECB's expectations. The ECB also set staggered deadlines [15] for banks to progressively meet all the supervisory expectations, with full alignment envisioned by the end of 2024. At present, findings on climate risks have already fed into the supervisory process and for a relatively small number of banks this has led to an impact on Pillar 2 capital requirements. Furthermore, in the last few years, climate risks have been among the supervisory priorities of the SSM, escalating to its second priority for the period 2024-2026. [16]

In October 2023 the Fed issued, jointly with the two other key US federal banking regulators, interagency principles for climate-related financial risk management for large financial institutions, [17] consolidating draft guidance separately proposed in 2021 and 2022. The principles provide high level supervisory expectations regarding how climate risks should be managed by banking organizations with over $100 billion in consolidated assets. The Fed explicitly clarifies that the principles neither prohibit nor discourage financial institutions from providing any type of legal banking services. In contrast with the supervisory expectations of the other institutions, banks are also expected to ensure that vulnerable communities and underserved customers are not inadvertently harmed by their climate-risk mitigation efforts. It is interesting to note the two dissenting votes in the Fed's adoption, reflecting the lack of consensus in the country over climate risks.

Climate stress tests

The BoE was the first central bank to outline plans to conduct a climate stress testing exercise. In July 2019, the Bank announced [18] that its 2021 Biennial Exploratory Scenario –an exercise the Bank conducts regularly to assess risks not covered by annual solvency stress tests– would explore the resilience of the UK financial system to climate physical and transition risks. The exercise was launched [19] in June 2021 and tested both large banks and insurance companies against three 30-year scenarios involving early, late and no additional policy action. The exercise was conceived as a learning tool to develop the capabilities of both the BoE and participants and was not intended to be used to set capital requirements related to climate risks. The results, published in May 2022, [20] revealed a material level of losses for firms in all scenarios, which caused a significant drag on their annual profitability. Projected losses would be substantially lower in an early and orderly scenario (30% lower compared to the late action scenario). Those findings have fed into the supervisory dialogue with firms.

In July 2022, the ECB made public its results of the bottom-up climate stress test. The exercise [21] revealed that under a short-term, three-year disorderly transition risk scenario and the two physical risk scenarios (flood risk and drought and heat risk), the combined credit and market risk losses for

the 41 banks providing projections would amount to around EUR 70 billion. As in the case of the BoE's exercise, losses were projected to be notably lower under an orderly climate transition.

The ECB also conducted a top-down economy-wide climate stress test [22] in September 2021 showing that the effects of climate risks are concentrated in certain geographical areas and sectors, with potential significant impact for corporates and banks most exposed to climate risks. Moreover, the impact on banks in terms of losses would mostly be driven by physical risk and would potentially be severe over the next 30 years.

In September 2022, the Fed announced a pilot climate scenario analysis exercise [23] for the six largest US banks to analyse the impact of different scenarios for both climate physical and transition risks on specific assets in their portfolios. The exercise aimed to learn about large banks' climate risk-management practices and to enhance the ability of the Fed and participating banks to identify, measure, monitor, and manage these risks. It was made clear [24] that climate scenario assessments were considered distinct and separate from regulatory stress tests, due to their exploratory nature and the absence of capital consequences. The exercise was launched in early 2023 and aggregate insights from the exercise were expected by the end of 2023. At the time of writing, the results had not been published.

Capital requirements

The BoE has explored the link between climate change and the regulatory capital framework. Its 2021 climate change adaptation report [25] declared that regulatory capital was not an appropriate tool to address the underlying causes of climate change and cautioned against the introduction of "green supporting" or "carbon penalizing" factors. However, it acknowledged that current regulatory capital frameworks only partially captured climate risks. To delve into the topic, the BoE convened a Research Conference in October 2022 and presented its conclusions [26] in March 2023. No policy change was announced, but the Bank committed to exploring further the possible gaps in the capital framework and whether specific regulatory tools might be appropriate, in particular macropudential approaches.

In the EU, while the ECB is not directly involved, the European Banking Authority (EBA) has recommended targeted enhancements to accelerate the integration of environmental and social risks into Pillar 1, though it still remains to be seen whether this will be translated into effective regulatory changes. In addition, the ECB and the European Systemic Risk Board (ESRB) [27] are exploring the possible use of some existing macroprudential tools to address climate risks, such as the systemic risk buffer.

Monetary policy

Central banks around the world are increasingly integrating climate change considerations into their monetary policy roles, although the integration is obviously framed by each central bank mandate. As we will see, there are significant divergences on each side of the Atlantic.

Mandates

In the case of both the BoE and the ECB, their monetary policy role seeks to maintain price stability as a primary objective, and

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> In the case of both the BoE and the ECB, their monetary policy role seeks to maintain price stability as a primary objective, and subject to that, to support general economic policies.

subject to that, as a secondary objective, to support general economic policies of the UK government and the EU, respectively.

Both central banks consider climate change could have crucial implications for their primary objective of price stability mainly through four channels that they need to monitor and understand: (1) impairment of monetary policy transmission mechanisms, (2) a possible decrease in the equilibrium real rate of interest, (3) direct impact on inflation dynamics; and, (4) protection of the central bank balance sheet. For this reason, they are stepping up their research efforts to understand how climate change and the transition to net zero will affect the macroeconomy and integrate these aspects into their macroeconomic models.

Regarding their secondary objective, both the UK and the European Union have ambitious climate policies and a determined commitment to climate neutrality.

In this sense, and focusing on the BoE, the remits of its three policy committees were updated in March 2021 in the annual remit letter sent by the Chancellor of the Exchequer outlining the government's priorities and objectives for the Bank. The new remits *included the transition to an environmentally sustainable and resilient net-zero economy* as part of the government's economic strategy that the committees must take into consideration as the secondary objective. In any case, the Bank's interpretation of the new remit has been rather conservative. It has described [28] its role in the net-zero transition as *to understand how different transition pathways could affect the macroeconomy, the stability of the wider financial system, and the safety and soundness of the firms it regulates*.

The approval of the ECB's strategy review of 2020-21 was a game-changer to accelerate its involvement in climate matters. Subsequently, in July 2021, the ECB presented an action plan [29] to include climate change considerations for monetary policy implementation. As stated by Christine Lagarde in her speech in November 2023 before the European Parliament, the ECB views climate change relevant for its work from the perspective of both its primary and secondary objective. Still, at the same time, several members of the Executive Committee of the ECB have made it clear that the ECB is a climate policy-taker, rather than a climate policy-maker.

The Fed understands that its 'dual mandate' of price stability and maximum employment leaves no margin for integrating climate change into its monetary policy role. The Fed's Chair Jerome Powell has spoken out unambiguously on several occasions alerting that *the Fed should stick to its statutory goals and authorities and that without explicit congressional legislation, it would be inappropriate [for the Fed] to use [its] monetary policy or supervisory tools to promote a greener economy or to achieve*

> The Fed understands that its 'dual mandate' of price stability and maximum employment leaves no margin for integrating climate change into its monetary policy role.

other climate-based goals. As he put it in early 2023, the Fed is not and will not be a "climate policymaker". [30]

Climate risk disclosure and management in monetary policy portfolios

The BoE was the first central bank to disclose the climate risks associated with its monetary policy portfolio, which it started to do as part of its annual climate financial disclosure report since June 2020. Its 2023 disclosure report assesses climate-related risks associated with its different asset portfolios using different metrics associated with climate physical and transition risks and via scenario analysis.

The ECB has also conducted in 2022 a climate risk stress test [31] of the Eurosystem's balance sheet, which revealed that both transition and physical risks have a material impact on its risk profile. The Eurosystem published climate-related information on its corporate bond holdings for the first time in March 2023, [32] with future reports to be published annually.

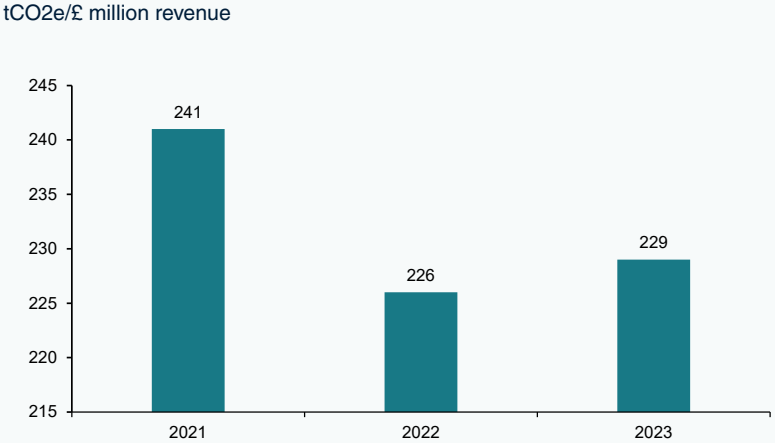
Greening monetary policy operations

In response to its new remit, the BoE announced in May 2021 its intention [33] to adjust the composition of its Corporate Bond Purchase Scheme (CBPS) to take account of the climate impact of issuers. The greening approach [34] was adopted in November 2021 and aimed at reducing by 25% the carbon intensity of this portfolio by 2025 and achieving full-alignment with net-zero by 2050. To that end, corporate purchases will be tilted towards those firms complying with certain climate-eligibility criteria related with being the strongest climate performers within their sectors based on a climate scorecard. This involved abandoning the market neutrality principle that had traditionally guided purchases to minimise distortions on relative borrowing cost across sectors.

To date, the greening of the CBPS has been the BoE's flagship policy instrument for supporting the transition, as the Bank has not yet followed a similar direction with its collateral framework. However, the practical relevance of this instrument has been rather limited. At the time the greening started, the Bank was only reinvesting the proceeds of maturing bonds, and only a few months later those reinvestments were halted, and an active bond sales programme was launched. However, the BoE could restart corporate bond purchases if a new crisis strikes. Indeed,

Exhibit 1

Weighted average carbon intensity of the CBPS portfolio



Source: Bank of England.

as shown in Exhibit 1, the Weighted Average Carbon Intensity (WACI) of the CBPS has only slightly decreased between 2021 and February 2023, driven by a combination of changes in portfolio weights and changes in companies' carbon intensity.

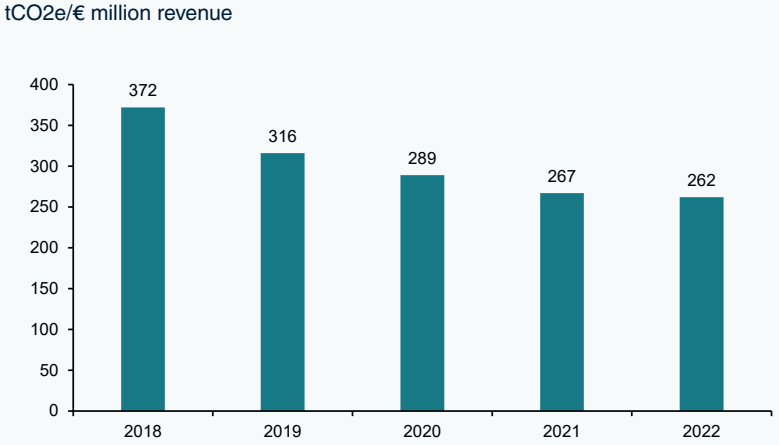
In the case of the ECB, the Bank started in October 2022 to tilt its corporate purchases towards issuers with a better climate performance. The shift covered both the Asset Purchase Programme (APP) and the Pandemic Emergency Programme (PEPP) and required the calculation of a specific climate score for each issuer. Since the Governing Council of the ECB [35] decided to discontinue reinvestments under the APP as of July 2023, the shift of the ECB towards green investments has significantly decreased. As per Exhibit 2, the WACI for the ECB's corporate sector portfolios significantly declined, but 75% of the decrease happened between 2018 and 2020, mainly due to issuers' decarbonisation efforts. After 2021, a rebound in issuers' emissions occurred due to increased economic activity and demand for energy and materials post-COVID. The ECB began its tilting practices in the last quarter of 2022, leading to a lower WACI for reinvestments in the final months of 2022 compared to the previous nine months. In any case, similar to the BoE, the overall impact of the tilting practices has been relatively limited due to their short duration.

The ECB has also taken steps to green its collateral framework. Since 2022, climate risks are considered when reviewing haircuts applied to corporate bonds used as collateral, and before the end of 2024, the institution will limit the share of assets issued by entities with high carbon footprint that can be pledged as collateral by counterparties when borrowing from the Eurosystem. In addition, as of 2026, the ECB will require issuers to comply with the Corporate Sustainability Reporting Directive (CSRD) to accept their collateral.

The ECB is also exploring other measures. ECB Executive Board member Frank Elderson (2023) [36] has advocated the expansion of the corporate bond greening strategy to public sector bond holdings, which represent the bulk of monetary policy assets. He also has suggested the greening of the targeted longer-

Exhibit 2

Weighted average carbon intensity of the Eurosystem corporate holdings portfolio



Source: Bank of England.

term refinancing operations (TLTROs), although this has been discarded for the time being, [37] as data challenges make it difficult to define the green target criteria.

Looking at the other side of the Atlantic, the Fed does not plan the greening of its monetary portfolio for the reasons indicated previously. When discussing this in 2020, [38] the Fed's Chairman, Jerome Powell, expressed his commitment to market neutrality, stating that the *Fed historically shied away strongly from taking a role in credit allocation* and that he would be reluctant to see the institution *picking one area as creditworthy and another not*.

Conclusions

While central banks normally show high degrees of convergence in terms of objectives, frameworks and tools, the extent to which they have integrated climate risks into their work varies depending on the domestic political context. A summary of the main actions undertaken by each central bank can be found in Table 1. As shown in the table, monetary policy is the area where there is the most divergence, despite their shared view that the transition to a low carbon economy must be led by governments.

The Bank of England has been a pioneer in most of the areas, but its leadership role on climate matters seems now to be losing momentum. For example, the Bank has not launched any significant new measure in the last year and climate change appears to be less present in the Bank's public speeches. In addition, the Bank has been rather conservative in the interpretation of this secondary objective and seems to assume its role in the transition is to ensure financial and monetary stability. Besides, recent events might suggest the UK government has relegated climate policies to a lower level of priority, such as the new *more proportionate* and *pragmatic approach* to net zero announced in September 2023. In the same line, the annual remit letter to the FPC [39] that Chancelor Hunt released in November 2023 has also been interpreted [40] as a downgrade of climate work in the government's guidance. Recent criticism over the BoE's performance in taming inflation has also spread to the Bank's climate work. In November 2023, the House of Lords [41] recommended that the Treasury should "prune" the BoE's remit, considering that its expansion to climate change and other issues could jeopardise its independence and hinder its ability to prioritise its primary objective of price stability.

The ECB started climate related work later than its UK peer, but it has today the most ambitious and pro-active approach to climate change of the three institutions. This is visible not only on the supervisory front, where climate risks are already having an impact on Pillar 2 capital requirements for some banks, but also in the ambitious greening of its collateral rules, a move the BoE has not taken yet. The ECB's action on climate matters has certainly increased in parallel with the pressure of the European Parliament and the growing ambition of the EU's climate policies, especially after the launch of the European Green Deal. This is also reflected in public statements by the ECB's leadership.

The Fed has a differentiated approach compared with the other two institutions as regards monetary policy. This is not so much the case as regards financial stability and supervision, where the institution is slowly approaching the central banking mainstream, though still with a more cautious stance. Indeed, supervisory expectations have only been addressed at the largest institutions, climate stress testing is in a pilot phase and its public statements are full of caution. As for monetary policy, while the Fed could be more active due to the potential impact of climate change on price stability and employment, it has clearly refrained from any pro-active measure to integrate climate risks or to support the transition. Such a divergence from its peers is explained not only by the absence of a similar secondary objective in its mandate, but also due to a strong and long-dated political and social polarisation in the US over climate change, which also has an impact on climate policies and, more recently, on the ESG movement. This domestic political landscape is a big constraint for the Fed, even if at present the US administration (and

Table 1

Summary of main initiatives adopted on climate change

	ECB	Bank of England	Federal Reserve
Early recognition	Joined NGFS in 2018, started climate risk assessments.	First to consider climate risks since 2015. A founding member of NGFS.	Acknowledged climate-related financial risks in 2019. Joined NGFS in 2020.
Supervisory expectations	Published guide on climate risks in 2020, thematic review in 2022.	Set out supervisory expectations in 2019, active supervision against expectations since 2022.	Issued climate risk management principles for large banks in 2023.
Climate stress tests	Conducted in 2022 climate stress tests to assess resilience of individual banks to climate risks. An economy-wide top-down exercise was conducted in 2021 to understand macroeconomic impacts of climate change and how this might indirectly affect the financial system.	Launched its Climate Biennial Exploratory Scenario (CBES) in 2021 to assess resilience of large banks and insurance companies to climate risks, with results published in 2022.	Pilot climate scenario analysis for major banks announced in 2022 and conducted in 2023. Results not published yet.
Capital requirements	The revision of the regulatory capital framework to incorporate climate risks is ongoing in the EU but the ECB plays an indirect role. Climate risk assessment in the supervisory process has led to an increase of Pillar 2 capital requirements for some banks.	Explored link with regulatory capital, no policy change yet. Indicated that its wider supervisory toolkit (which includes pillar 2 capital charges) could be used for banks not meeting its climate supervisory expectations.	No action taken.
Monetary policy integration	Tilting corporate bond purchases towards better climate performers started in October 2022. Greening of its collateral framework in 2022.	Started to tilt corporate bond purchases towards better climate performers in November 2021. Due to the unwinding of the program, the greening only affected reinvestments between November and January 2022.	No integration of climate change into monetary policy.
Disclosures of monetary policy portfolio	Conducted in 2022 a climate stress test of the Eurosystem's balance sheet. In 2023 started to disclose climate-related information of corporate bond holdings.	Since 2020 discloses climate risks of its monetary policy portfolio, differentiating different purchase programs. Uses different climate metrics and conducts scenario analysis.	No specific climate-related disclosures for monetary policy portfolio.

Source: Authors' own elaboration.

in particular the US Treasury) is strongly supportive of climate action.

Notes

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Emma Navarro and Judith Arnal. Trade Experts and State Economists

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)

Bank of Spain Circular 3/2023 amending Circulars 2/2016 and 1/2022 (*Official State Journal*: 14 November 2023)

Circular 3/2023 amends, on the one hand, Circular 2/2016, in order to introduce the prohibition on taking in deposits or other reimbursable funds from the public under the regime governing the provision of services in Spain without a branch for banks headquartered in non-EU Member States. In addition: (i) it introduces the minimum aspects to be analysed in the authorisation process and references application of the Securities Market and Investment Services Act to entities intending to provide investment services in Spain under the above-mentioned regime; and (ii) it eliminates the contents of the application form.

On the other hand, the new Circular revises the requirements for reporting on remuneration to the Bank of Spain for banks as well as specialised lending institutions (SLIs) via amendments to Circulars 2/2016 and 1/2022, respectively. As a result, the remuneration statements are now generally applicable to all credit institutions, the principle of proportionality applying, to the extent possible.

With respect to the remuneration disclosures to be provided periodically: (i) the Circular 2/2016 statements have been amended; (ii) two new statements have been introduced related with gender pay gap reporting and the information which must be used for the purpose of comparing the highest authorised ratios between fixed and variable components; and (iii) the frequencies with which the new remuneration statements have to be provided have been adjusted.

The first submission of statements relating to the general remuneration information to be furnished periodically will include information corresponding to 31 December 2023 and must be provided no later than 15 June 2024. Exceptionally, the first submission of the gender pay gap information statement will include information corresponding to 31 December 2024, to be provided no later than 15 June 2025.

Royal Decrees implementing the Securities Markets and Investment Services Act (*Official State Journal*: 9 November 2023)

- Royal Decree 813/2023 on the legal regime governing investment service firms and other investment service providers.

The purpose of this Royal Decree is to implement: (i) the rules applicable to investment service firms (ISFs) and other persons and entities authorised to provide investment services, and their rules of conduct; and (ii) the rules applicable to data reporting service providers. It also transposes Directive (EU) 2019/2034 on the prudential supervision of investment firms and Delegated Directive (EU) 2021/1269 as regards sustainability factors into Spanish law.

In broad terms, it regulates the following aspects:

- A new prudential framework modifying the initial capital requirements applicable to investment service firms (ISFs).
- A new regime for 'national financial advisors'. These entities will not be considered ISFs and will not be allowed

to provide services in other EU Member States.

- The cross-border investment services regime, distinguishing between cross-border activity within the EU, with requirements similar to the national rules, and cross-border activity with third states, with additional safeguards.

- Systematisation of the rules governing significant shareholdings.

- The management systems, procedures and mechanisms applicable to ISFs: (i) financial requirements; (ii) internal organisational and operational requirements; (iii) internal organisational and operational requirements for ISFs engaged in algorithm trading; (iv) internal organisational and operational requirements for ISFs that provide direct electronic access; and (v) internal governance, risk management, remuneration and transparency requirements for large and interconnected ISFs.

- With respect to incentives, the Royal Decree introduce the stipulation that the fees, commissions or non-monetary benefits derived from the provision of a financial instrument placement service not on a firm commitment basis or the underwriting of financial instruments or placement of financial instruments on a firm commitment basis are designed to enhance the quality of the related service to the client if they provide access to a primary market.

- The integration of the sustainability factors into product governance matters.

- Lastly, the provisions regarding data reporting service providers rendered obsolete by entry into effect of the European regulations have been updated.

➢ Royal Decree 814/2023 on financial instruments, admission to trading, registration of transferable securities and market infrastructures.

The purpose of this new legislation is to systematise and restructure the existing body of legislation in order to ensure clear and simple capital markets regulations. In broad terms, the new legislation addresses the following:

- Reorganisation of the provisions related to: (i) the aspects related with financial instruments and representation of transferable securities by means of book entries; (ii) the admission to trading on regulated markets of public securities offerings and responsibility for the prospectuses; (iii) the clearing, settlement and registration of transferable securities; and (iv) the position limits on the size of a net position in agricultural commodities derivatives and critical or significant commodity derivatives.

- Classification of shareholdings in limited-liability companies as apt securities for the purpose of activities carried on by crowdfunding platforms and ISFs.

- Elimination of central securities depositories' obligation to have an information system for the purpose of supervising transferable securities trading, clearance, settlement and registration (post trade interface or PTI).

- Elimination of the public offering concept.

- New exemptions for financial and non-financial counterparties that are subject to the legal liquidity provision requirement.

- The admission to trading requirements for each fixed-income issue will now be checked solely by the fixed-income market's governing body and no longer by the CNMV.

- Alignment of central securities depositories' oversight and control requirements with European regulations.

- Elimination of outdated references that are no longer applicable or fail to adequately reflect the reality of the Spanish capital

markets, such as the provisions regarding the market for public debt represented by book entries.

It also transposes Directive (EU) 2021/338 as regards information requirements, product governance and position limits to help the recovery from the COVID-19 crisis.

- Royal Decree 815/2023 as regards the CNMV's official registers, cooperation with other authorities and supervision of investment service firms.

The purpose of this Royal Decree is to implement the CNMV's supervisory and administrative powers. To that end it regulates the following:

- The official registers the CNMV must set up and maintain.
- Cooperation with the Bank of Spain, supervisory authorities of other EU Member States, ESMA and supervisory authorities of third states.
- The supervision of ISFs.
- The CNMV's reporting requirements around solvency.

It also partially transposes Directive (EU) 2019/2034.

- Royal Decree 816/2023 amending the undertakings for collective investment regime.

This Royal Decree amends Royal Decree 1082/2012 (implementing Law 35/2003 on collective investment schemes) and transposes Delegated Directive (EU) 2021/1270 as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS). The most important changes introduced include:

- Introduction of by-default electronic communication with investors and shareholders.
- Elimination of the requirement to provide investors with a quarterly report.
- Development of the procedure regulating expressions of interest when designating a new manager and/or depository to replace a manager and/or depository facing bankruptcy, licence revocation or suspension.
- Elimination of the requirement to provide the internal code of conduct when applying for a business permit.
- Introduction of sustainability risks into management companies' internal processes, systems and controls.

Royal Decree 1180/2023 on investor and UCI indemnification systems (*Official State Journal*: 28 December 2023)

The purpose of this Royal Decree is to update the investment guarantee scheme (FOGAIN for its acronym in Spanish; hereinafter, the "Scheme"), modify the contribution regime and enhance the legal regime governing undertakings for collective investment (UCIs). The following changes stand out:

1. Royal Decree 948/2001, on investor indemnification systems:

- National financial advisors (see above) will have three months from effectiveness of this new Royal Decree to join the Scheme.
- The money, securities and instruments entrusted by professional investors are excluded from the insurance scheme.
- The annual financial contribution regime binding upon Scheme members has been modified.
- A new formula has been introduced for calculating the amount of assets needed to trigger the staggered reduction in contributions by participating firms.
- Introduction of a voluntary and gradual schedule for transitioning to the new

contribution regime for entities that were already contributing to the Scheme.

2. Royal Decree 1082/2012 (implementing the UCI Act):

- Modification of investment fund performance fees. Managers must specify in their prospectuses the system used to calculate performance or success fees. They must also establish a performance reference period such that a performance-based management fee can only be paid if the manager has accumulated a positive return during that benchmark period.

- Elimination of the requirement that the marketer not belong to the same group as the manager so that firms marketing investment funds can charge investors share custody and administration fees.

- Elimination of the requirement to include an indicator of running expenses in the prospectus.

- Specification that in the event of dissolution and liquidation of an investment fund, it is possible, while continuing to suspend the investor's right to request a reimbursement, to articulate payments on account of share reimbursements.

- Elimination of the quantitative limits previously imposed on UCIs with respect to investments in financial instruments featuring voting rights over an issue, leaving the reference to the possibility of exercising significant influence over the issuer.

- Elimination of the 1% liquidity coefficient requirement for UCIs.

- Adjustment of the minimum investment periods, eliminating the maximum quantitative limit associated with the first time the investor subscribes for shares (previously set at one year), replacing it with a time limit associated with when the hedge fund expects to liquidate its investments.

- Introduction of more flexible prorating of redemptions so that they are no longer conditional on settlement at the next redemption date but rather on a sufficient liquidity requirement.

- Introduction of flexibility into the regime for marketing hedge funds to non-professional investors to align it with the regime established in Law 18/2022 (28 September 2022) on the creation and growth of companies.

- Introduction of stricter limits on management and deposit fees at side pockets. Specifically, from year two after creation of the fund or a side pocket, the management fee will be capped at the higher of one-third of that established in the original UCI, or at 0.20% of assets under management. Deposit fees will be capped at the amount stipulated in the original UCI.

- Permission for fund management rules to contemplate notice periods aligned with the deadline for dealing with subscription and redemption requests.

- Reinforcement of the risk diversification limits applicable to UCI management companies by including, in addition to securities issued, all manner of financial instruments and also cash, within the 25% limit on the concentration of exposures to a given entity or entities within the same group.

Royal Decree-law 8/2023 addressing the economic and social consequences of the conflicts in Ukraine and the Middle East (*Official State Journal*: 28 December 2023)

In the financial arena, in broad terms, the following measures stand out:

- Mortgage-related measures

  - Extension until 31 December 2024 of the suspension of consideration or fees for the full or partial prepayment of mortgage loan or credit agreements at floating rates or any fees for the conversion of such agreements into fixed-rate arrangements

or arrangements with a fixed rate during an initial period of at least three years.

- Extension of the regime limiting prepayment fees for amended loans that were modified in order to convert them into fixed-rate mortgages so as to include arrangements in which the resulting transaction is a loan with a fixed rate of interest during an initial period of at least three years (mixed mortgages). As a result, during the first three years of the term of such a loan agreement, the consideration or fees charged for early repayment cannot exceed the financial loss that the borrower could incur, capped at 0.05% of the principle prepaid. After that three-year period, no consideration may be collected for conversion to a fixed or mixed arrangement.

- Payment services and systems measures

  - Introduction of limits on the collection of fees for the provision of cash withdrawal services in branch offices for 'vulnerable' groups, meaning people over the age of 65 and those with certified disabilities of a severity of 33% or higher.

  - Introduction of the requirement to comply with the obligations set down in chapter II of the Digital Operational Resilience Act (DORA) by operators of payment systems and entities involved in payment-processing activities. The Bank of Spain will be tasked with supervising compliance with these obligations (other than for payment system operators considered systemically important by the ECB) and any penalties. The entities have until 17 January 2025 to implement the measures needed to comply with the new requirements.

- Housing-related measures

  - The Ministry of Housing and Urban Agenda has been authorised, under an agreement with the Official Credit Institute, the ICO, and for a period of up to 35 years, to create and manage a surety facility of up to 2 billion euros offering partial state guarantees to secure financing provided to public and private developers for the development of social housing.

  - Extension until 31 December 2024 of the suspension of eviction proceedings and foreclosures for vulnerable households without residential alternatives.

  - Extension until 31 December 2024 of the possibility of applying for compensation from a lessor or landlord to tackle situations of social and economic vulnerability with respect to housing.

- Payment obligation measures for debtors affected by seismic movements and volcanoes affecting La Palma Island

  - A new term has been established (until 30 January 2024) for those debtors affected by the seismic movements and volcanoes affecting La Palma Island that had requested a moratorium on payment obligations under secured or unsecured loan or credit agreements for requesting an additional six-month moratorium on that payment obligations.

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Spanish economic forecasts panel: January 2024*

Funcas Economic Trends and Statistics Department

GDP estimated to have grown by 2.4% in 2023

According to analysts' consensus, GDP grew by 2.4% in 2023, the same as anticipated in the November forecast panel. The estimate has not changed, firstly, because the revision of the Quarterly National Accounts data by the INE has been minor, with accumulated growth remaining unchanged for the first three quarters of the year. In addition, analysts' forecast for the fourth quarter is for growth of 0.3%, which, although one tenth of a percentage point higher than the previous forecast, does not change the expected annual average.

Domestic demand is expected to have contributed 1.9 percentage points to GDP growth (two tenths of a percentage point more than the previous consensus) and the foreign sector 0.5 percentage points (two tenths of a percentage point less). The estimate for consumption, both public and private, has been revised upwards, while that for investment has been revised downwards. Regarding exports and imports, the estimates have been revised downwards, more in the case of the former than in the latter (Table 1).

The forecast for 2024 remains at 1.6%

The consensus forecast for GDP growth in 2024 remains at 1.6%, below that of the government, but close to those of the Bank of Spain and international organizations (Table 1). Growth of 0.3% and 0.4% is expected in the first and second quarters, respectively, followed by gains of 0.5% for the remaining quarters (Table 2).

For the year as a whole, growth is expected to be sustained by domestic demand, which will contribute 1.7 percentage points, while the foreign sector is anticipated to deduct one tenth of a percentage point, as estimated in the previous consensus. The slowdown in relation to 2023 will be felt in consumption, both public and private, and in the foreign sector, due to a significant increase in imports, while investment will show more vigor.

Headline and core inflation forecast reduced for 2024

Overall CPI moderated in the last months of the year, closing out with an annual average of 3.5%. Similarly, core inflation also moderated in the fourth quarter, with an annual average of 6% (Table 1).

The forecast for the average annual rate in 2024 has been reduced by three tenths of a percentage point with respect to the previous Panel, to 3%. The annual rate in December is expected at 2.7% (Table 3). As for core inflation, the forecast for the average annual rate has been reduced by one tenth to 3.2%.

The labor market continues to show strength

According to Social Security enrollment figures, job creation in the fourth quarter was similar to that of the previous quarter, although the pace was slower than in the first part of the year.

The consensus forecast for employment growth in 2023 is 2.6%, and for 2024 a growth of 1.5% is expected, three tenths more and one tenth less, respectively, compared to the November panel. Based on the forecasts for GDP, employment and wage growth, the implicit forecast for productivity and unit labor cost (ULC) growth is obtained. Productivity per full-time equivalent job is expected to fall by 0.2% in 2023 and is forecast to grow by 0.1% this year. As for ULCs, they are expected to increase by 4.7% in 2023 and are forecast to increase by 3.4% in 2024.

The average annual unemployment rate is excepted to be 12.1% in 2023, according to the consensus, and is forecast to fall by four tenths of a percentage point to 11.7% in 2024 (Table 1).

Historic trade surplus

The current account balance recorded a positive balance up to October of 32.7 billion euros, the

best figure for this period in the entire historical series. For 2023 as a whole, the consensus estimate points to a surplus of 2.1% of GDP, two tenths more than the previous forecast. The surplus is excpected to reach 1.5% this year, two tenths of a percentage point higher (Table 1).

Public deficit forecast is maintained

Public administrations, excluding local corporations, recorded a deficit of 19.18 billion euros up to October, compared to 19.81 billion euros in the same period of the previous year. This result is the consequence of an increase in revenues slightly higher than the growth in expenses.

Analysts' consesnsus maintains public deficit forecasts at 4.1% and 3.6% of GDP for 2023 and 2024, respectively. Both figures are higher than those forecast by the Government, the Bank of Spain and the main international organizations (Table 1).

The external environment remains unfavorable

The international context is marked by the impact of the monetary tightening cycle and the uncertainties generated by geopolitical tensions. The challenges caused by shipping disruptions in the Red Sea have made freight rates considerably more expensive, particularly impacting the European economy. Another factor weakening the global economy is the adjustment of the Chinese economy as a result of private debt overhang. By contrast, the US economy seems to be holding up better to the impact of interest rate hikes.

Recent indicators reflect continued global sluggishness. The December purchasing managers' index (global PMI) sits slightly above the threshold of 50, consistent with slow growth in the world economy. In the case of the eurozone, the indicator remains in a contractionary phase (of the four major European countries, only Spain is above the 50 threshold).

The Panel's assessments remain pessimistic over the external environment (Table 4) with no clear change expected in the short-term, especially outside of the EU.

According to the consensus forecast, ECB rates will fall by 0.75 points by the end of the year

The slowdown in the economy, together with the gradual normalization of energy markets, is leading to a de-escalation of inflation. However, central banks consider that it is still too early to lower their guard in the fight against rising prices. Since the last Panel, the ECB has maintained its interest rates, and its senior officials do not expect any changes in the very short-term.

Analysts have incorporated the message, and expect rates to remain at elevated levels for longer than originally anticipated, though with some relaxation on the horizon. The consensus forecast is for the deposit facility to remain at its current level of 4% until the first quarter of 2024, before embarking on a slightly declining path (Table 2). The deposit facility is excepted to be close to 3.25% by the end of the year, slightly above the previous consensus.

Market interest rates are expected to follow a similar trend, or even more pronounced in the case of government bonds. By the end of the year, Euribor is forecast at close to 3.25% (compared to 3.6% in the previous assessment) and the yield on Spanish government bonds with 10-year maturities is projected at close to 3% (half a point lower).

Relative stability of the euro against the dollar

One of the side effects of the worsening Israeli-Palestinian conflict has been the appreciation of the dollar against the euro, due to its safe-haven status. More recently, however, the euro has recovered, encouraged by better inflation data and the possibility of lower interest rates. According to the consensus, the euro is expected to be relatively stable over the projection period (Table 2).

Monetary policy remains restrictive and fiscal policy expansionary

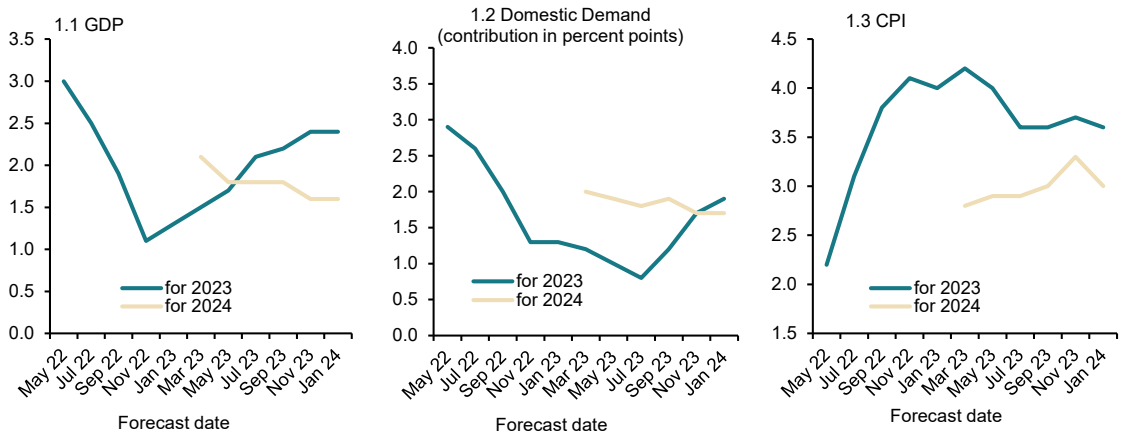
Regarding macroeconomic policy, the consensus remains virtually unchanged. Almost all panelists continue to consider that fiscal policy is being

expansionary, while it should be neutral in relation to the economic cycle (Table 4). Panelists are unanimous on the restrictive stance of monetary policy right now, with the majority of the opinion that the central bank is taking the appropriate position.

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 19 research departments listed in Table 1. The survey, circulated since 1999, is a bi-monthly publication issued 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 19 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organizations are also included for comparison, but do not form part of the consensus forecast.*

Spanish economic forecasts panel: January 2024*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – January 2024

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[3]	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Analistas Financieros Internacionales (AFI)	2.4	1.6	2.3	2.2	2.7	2.2	1.9	2.9	0.7	5.2	2.9	1.0	2.3	2.4
BBVA Research	2.4	1.5	2.2	1.7	2.7	1.4	1.8	4.5	-0.2	5.0	3.0	3.5	1.9	2.1
CaixaBank Research	2.4	1.4	2.2	1.9	2.6	1.4	1.9	2.5	-0.1	3.7	3.1	1.5	1.9	1.8
Cámara de Comercio de España	2.4	1.6	1.7	1.6	2.7	1.9	1.7	1.8	-1.2	1.3	2.8	2.5	1.8	1.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.5	1.8	1.7	2.0	2.4	0.8	0.9	1.9	-1.8	2.5	3.0	1.5	1.7	1.7
Centro de Predicción Económica (CEPREDE-UAM)	2.4	2.1	2.1	1.7	2.6	2.4	1.7	5.2	-0.2	5.4	2.9	4.5	2.0	2.6
CEOE	2.4	1.4	2.0	1.7	2.5	1.1	1.0	2.1	-1.9	1.2	2.6	0.7	1.6	1.6
Equipo Económico (Ee)	2.4	1.8	2.2	1.9	2.6	1.5	1.7	2.8	-0.8	3.2	2.6	2.8	2.1	1.9
EthiFinance Ratings	2.4	1.7	1.3	1.8	1.7	1.5	1.5	2.1	1.1	1.8	3.1	3.0	--	--
Funcas	2.4	1.5	2.3	2.1	2.6	0.4	1.8	1.7	0.2	1.8	3.2	1.7	2.1	1.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.4	1.8	2.1	1.7	2.6	1.0	1.6	2.2	-0.3	2.1	2.9	1.6	1.8	1.5
Instituto de Estudios Económicos (IEE)	2.4	1.3	1.9	1.8	2.4	1.0	0.8	2.1	-2.0	1.3	2.5	0.7	1.5	1.6
Intermoney	2.4	1.9	1.9	2.4	2.0	1.0	2.0	3.2	0.2	3.0	3.5	3.5	1.8	2.1
Mapfre Economics	2.5	1.3	1.6	1.5	2.2	0.9	1.6	1.2	--	--	--	--	1.4	1.0
Metyis	2.4	1.4	2.0	1.6	2.2	0.8	2.5	2.8	0.2	2.3	3.2	3.5	1.6	1.6
Oxford Economics	2.4	1.4	2.1	1.4	3.0	0.7	1.4	1.7	-2.0	1.5	2.2	-0.5	2.0	1.0
Repsol	2.4	1.2	2.5	1.7	3.5	1.8	1.5	1.7	-0.1	1.6	2.7	1.4	2.0	1.1
Santander	2.4	1.4	2.4	2.3	3.3	1.0	1.2	1.8	-0.4	2.6	2.2	1.0	2.0	2.0
Universidad Loyola Andalucía	2.4	1.8	2.0	2.0	2.8	2.5	3.1	2.1	-1.2	0.6	4.0	1.9	2.2	1.5
CONSENSUS (AVERAGE)	2.4	1.6	2.0	1.8	2.6	1.3	1.7	2.4	-0.6	2.6	2.9	2.0	1.9	1.7
Maximum	2.5	2.1	2.5	2.4	3.5	2.5	3.1	5.2	1.1	5.4	4.0	4.5	2.3	2.6
Minimum	2.4	1.2	1.3	1.4	1.7	0.4	0.8	1.2	-2.0	0.6	2.2	-0.5	1.4	1.0
Change on 2 months earlier[1]	0.0	0.0	0.1	-0.1	0.2	0.0	-0.2	-0.3	-0.2	-0.4	-0.3	-0.1	0.2	0.0
- Rise[2]	5	1	8	3	7	3	0	2	2	2	0	2	7	2
- Drop[2]	0	5	0	4	0	2	8	6	5	5	7	6	0	3
Change on 6 months earlier[1]	0.3	-0.2	1.6	0.0	1.4	0.0	0.1	-0.8	-1.4	-1.0	0.5	-1.1	1.1	-0.1
Memorandum items:														
Government (October 2023)	2.4	2.0	1.5	2.5	1.9	0.2	3.0	4.0	--	--	--	--	1.9	2.2
Bank of Spain (December 2023)	2.4	1.6	2.2	2.3	2.2	0.8	1.8	2.7	--	--	--	--	1.8	2.0
EC (November 2023)	2.4	1.7	1.5	2.0	1.6	0.4	2.4	3.4	1.0	5.3	3.2	2.4	--	--
IMF (October 2023)	2.5	1.7	2.0	1.4	3.0	1.3	2.4	3.8	--	--	--	--	2.0	1.7
OECD (November 2023)	2.4	1.4	2.2	1.9	--	--	1.7	1.4	--	--	--	--	--	--

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

[2] Number of panellists revising their forecast upwards (or downwards) since two months earlier.

[3] Contribution to GDP growth, in percentage points.

Table 1 (Continued)

Economic Forecasts for Spain – January 2024

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[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		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)	0.7	-2.1	0.4	-0.3	3.5	3.1	6.0	2.7	4.6	3.7	2.7	1.2	12.0	11.8	2.4	0.7	-3.9	-3.0
BBVA Research	0.8	1.8	-0.3	3.3	3.5	3.5	6.0	3.4	4.7	3.8	3.1	1.9	12.2	11.8	2.8	2.9	-4.1	-3.7
CaixaBank Research	0.6	-1.6	-0.7	-0.7	3.5	3.6	6.0	3.1	4.0	3.0	2.2	1.4	12.1	11.8	1.8	1.7	-4.2	-3.6
Cámara de Comercio de España	1.2	1.2	-0.6	1.1	3.5	2.7	6.0	3.3	--	--	2.2	1.0	12.4	12.4	0.9	0.5	-4.2	-3.7
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.8	3.4	-0.4	3.2	3.5	3.3	6.0	3.2	--	--	2.6	1.2	11.2	10.4	1.2	1.0	-4.1	-3.4
Centro de Predicción Económica (CEPREDE-UAM)	0.5	3.0	-0.4	4.8	3.5	2.5	6.0	--	4.8	3.8	2.7	1.0	12.4	12.1	2.2	0.9	-3.4	-3.0
CEOE	0.8	2.2	-1.3	2.6	3.5	3.0	6.0	2.9	4.9	3.6	2.7	1.3	12.1	11.7	2.5	1.5	-4.2	-3.7
Equipo Económico (Ee)	1.0	1.0	-0.1	1.4	3.5	3.3	6.0	3.4	4.5	4.0	2.7	2.0	12.2	11.9	1.7	1.2	-4.0	-3.7
EthiFinance Ratings	3.0	2.0	1.0	3.0	3.5	3.3	6.0	3.3	--	--	--	--	12.6	12.1	1.3	1.0	-4.3	-3.8
Funcas	1.4	1.2	0.7	1.6	3.5	3.2	6.0	2.9	5.2	3.0	3.1	1.3	12.1	11.5	2.5	2.4	-4.0	-3.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.1	3.8	1.5	2.7	3.5	3.2	6.0	3.5	--	--	2.2	1.3	12.1	11.8	2.0	1.5	-4.1	-3.4
Instituto de Estudios Económicos (IEE)	1.0	1.7	-1.2	2.6	3.5	3.1	6.0	3.0	4.9	3.6	2.6	1.1	12.2	12.0	2.2	0.8	-4.3	-3.8
Intermoney	1.6	1.5	0.2	2.3	3.5	3.5	6.0	3.6	--	--	1.9	2.0	12.1	12.0	1.5	--	-4.0	-3.6
Mapfre Economics	4.0	2.2	1.5	1.9	3.5	2.5	6.0	2.5	--	--	--	--	11.5	11.6	3.0	2.7	-3.9	-3.8
Metyis	3.0	2.0	-0.1	1.5	3.5	3.2	6.0	3.6	4.0	3.3	2.0	1.3	12.1	11.8	2.6	2.2	-3.8	-3.4
Oxford Economics	1.2	2.3	-0.1	1.4	3.5	2.1	6.0	2.6	--	--	--	--	12.1	11.6	2.7	3.3	-4.2	-4.0
Repsol	1.0	2.4	-0.1	2.2	3.5	2.5	6.0	2.7	3.5	3.0	3.1	2.6	12.1	11.8	2.5	1.0	-4.4	-3.5
Santander	1.2	1.4	0.3	2.7	3.5	3.0	6.0	3.0	--	--	--	--	12.1	11.8	--	--	--	--
Universidad Loyola Andalucía	2.2	1.6	1.0	1.1	3.5	2.6	6.0	5.0	--	--	2.5	2.4	12.0	11.3	2.4	1.1	-3.9	-3.7
CONSENSUS (AVERAGE)	1.6	1.6	0.1	2.0	3.5	3.0	6.0	3.2	4.5	3.5	2.6	1.5	12.1	11.7	2.1	1.5	-4.1	-3.6
Maximum	4.0	3.8	1.5	4.8	3.8	3.6	6.7	5.0	5.2	4.0	3.1	2.6	12.6	12.4	3.0	3.3	-3.4	-3.0
Minimum	0.5	-2.1	-1.3	-0.7	3.4	2.1	4.2	2.5	3.5	3.0	1.9	1.0	11.2	10.4	0.9	0.5	-4.4	-4.0
Change on 2 months earlier[1]	-0.5	-0.2	-0.2	-0.2	-0.1	-0.3	0.1	-0.1	0.0	0.0	0.3	-0.1	-0.1	0.0	0.2	0.2	0.0	0.0
- Rise[2]	4	1	3	1	0	0	2	5	3	2	7	4	2	2	10	7	2	3
- Drop[2]	5	7	5	7	13	12	10	5	2	2	0	1	5	3	1	0	2	1
Change on 6 months earlier[1]	-4.5	-1.4	-2.6	-1.4	0.0	0.1	0.3	0.1	0.8	0.0	1.2	0.2	-0.5	-0.5	0.7	0.4	0.0	-0.1
Memorandum items:																		
Government (October 2023)	3.4	2.4	1.4	3.3	--	--	--	--	--	--	2.2	1.4	11.8	10.9	2.5	1.9	-3.9	-3.0
Bank of Spain (December 2023)	1.0	0.3	-0.4	1.3	3.4 [6]	3.3 [6]	4.1 [7]	1.9 [7]	--	--	1.9 [8]	1.3 [8]	12.1	11.7	--	--	-3.8	-3.4
EC (November 2023)	1.9	2.8	0.2	3.5	3.6 [6]	3.4 [6]	4.3 [7]	3.1 [7]	4.8	3.9	1.9	1.2	12.1	11.6	1.9	1.7	-4.1	-3.2
IMF (October 2023)	3.1	2.5	1.9	2.9	3.5	3.9	--	--	--	--	1.7	1.0	11.8	11.3	2.1	2.0	-3.9	-3.0
OECD (November 2023)	1.4	1.4	0.0	2.0	3.5 [6]	3.7 [6]	4.3 [7]	3.1 [7]	--	--	3.2	2.2	12.0	12.0	2.5	1.4	-3.6	-3.2

[1] *Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).*

[2] *Number of panellists revising their forecast upwards (or downwards) since two months earlier.*

[3] *Average earnings per full-time equivalent job.*

[4] *In National Accounts terms: Full-time equivalent jobs.*

[5] *Current account balance, according to Bank of Spain estimates.*

[6] *Harmonized Index of Consumer Prices (HICP).*

[7] *Harmonized Index excluding energy and food.*

[8] *Hours worked.*

Table 2

Quarterly Forecasts – January 2024

	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[1]	0.6	0.4	0.3	0.3	0.3	0.4	0.5	0.5
Euribor 1 yr [2]	3.65	4.01	4.15	3.68	3.67	3.56	3.42	3.27
Government bond yield 10 yr [2]	3.43	3.40	3.71	3.12	3.13	3.09	3.05	3.02
ECB main refinancing operations interest rate [3]	3.50	4.00	4.50	4.50	4.48	4.27	4.04	3.65
ECB deposit rates [3]	3.00	3.50	4.00	4.00	4.00	3.78	3.56	3.30
Dollar / Euro exchange rate [2]	1.07	1.08	1.07	1.09	1.09	1.09	1.10	1.10

Forecasts in yellow.
[1] Qr-on-qr growth rates.
[2] End of period.
[3] Last day of the quarter.

Table 3

CPI Forecasts – January 2024

Year-on-year change (%)				
Dec-23	Jan-24	Feb-24	Mar-24	Dec-24
3.1	3.3	3.0	3.0	2.7

Table 4

Opinions – January 2024

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	3	16	5	12	2
International context: Non-EU	0	3	16	3	10	6
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	1	18	3	16	0
Monetary policy assessment[1]	19	0	0	11	8	0

[1] 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		-11.2	-12.3	3.6	-9.0	-9.2	-8.8	-20.1	-15.0	-9.0	-2.2
2021		6.4	7.1	3.4	2.8	0.4	5.2	13.5	14.9	6.6	-0.2
2022		5.8	4.7	-0.2	2.4	2.6	2.2	15.2	7.0	2.9	2.9
2023		2.4	2.3	2.6	1.8	3.2	0.2	1.4	0.7	2.1	0.3
2024		1.5	2.1	0.4	1.7	1.7	1.8	1.2	1.6	1.6	-0.1
2025		2.0	2.0	0.7	3.3	3.2	3.5	2.4	2.4	1.9	0.1
2022	I	6.8	6.6	0.0	2.8	1.1	4.6	18.0	12.2	4.8	2.0
	II	7.2	4.9	-1.7	3.1	4.3	2.0	21.9	9.8	3.1	4.1
	III	5.4	5.3	-0.6	4.0	3.7	4.3	12.9	6.5	3.0	2.3
	IV	3.8	2.1	1.6	-0.4	1.2	-2.2	8.7	0.1	0.8	3.1
2023	I	4.1	2.8	1.8	-0.3	3.3	-3.9	9.3	2.2	1.5	2.7
	II	2.0	2.3	4.4	1.5	3.6	-0.9	-0.8	-0.2	2.3	-0.3
	III	1.8	1.1	4.3	0.2	1.4	-1.0	-2.3	-2.4	1.8	0.0
	IV	1.6	3.2	0.1	5.8	4.6	7.0	0.0	3.1	2.7	-1.1
2024	I	1.3	2.9	0.5	2.9	3.3	2.5	-3.7	-1.0	2.4	-1.1
	II	1.2	2.5	-0.3	1.3	0.1	2.7	0.0	1.4	1.7	-0.5
	III	1.5	1.6	-0.9	2.1	2.8	1.3	5.3	4.9	1.2	0.2
	IV	1.9	1.6	2.4	0.7	0.7	0.7	3.4	1.3	1.0	0.9
		Chain-linked volumes. quarter-on-quarter percentage changes									
2022	I	0.3	-0.1	-0.2	2.7	-0.7	6.3	3.7	2.2	-0.3	0.6
	II	2.5	1.4	-1.3	0.0	3.0	-3.1	6.9	0.2	0.0	2.5
	III	0.5	2.5	1.4	0.7	-0.3	1.7	-2.6	-0.7	1.3	-0.8
	IV	0.5	-1.5	1.6	-3.6	-0.7	-6.6	0.6	-1.6	-0.3	0.8
2023	I	0.6	0.5	0.1	2.8	1.3	4.4	4.3	4.3	0.4	0.2
	II	0.4	0.8	1.3	1.8	3.4	-0.1	-3.0	-2.1	0.8	-0.4
	III	0.3	1.3	1.3	-0.6	-2.5	1.6	-4.1	-2.9	0.8	-0.5
	IV	0.3	0.5	-2.5	1.7	2.4	1.0	3.0	4.0	0.1	0.2
2024	I	0.2	0.2	0.5	0.0	0.0	0.0	0.5	0.2	0.2	0.0
	II	0.4	0.4	0.5	0.2	0.2	0.1	0.7	0.3	0.4	0.0
	III	0.5	0.5	0.6	0.2	0.2	0.2	1.0	0.4	0.4	0.1
	IV	0.7	0.5	0.8	0.3	0.3	0.4	1.2	0.4	0.5	0.2
		Current prices (EUR billions)	Percentage of GDP at current prices								
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		1,119	56.1	22.0	20.4	10.5	9.9	30.8	29.3	98.6	1.4
2021		1,222	56.2	21.2	20.1	10.3	9.8	34.2	33.2	99.0	1.0
2022		1,346	56.9	20.4	20.1	10.5	9.5	40.9	39.7	98.8	1.2
2023		1,460	55.9	19.8	19.4	10.5	8.9	38.8	35.1	96.3	3.7
2024		1,532	56.1	19.6	19.5	10.6	8.9	38.4	34.7	96.3	3.7
2025		1,598	56.2	19.4	19.8	10.7	9.1	38.3	34.7	96.4	3.6

**Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Level, 2015=100

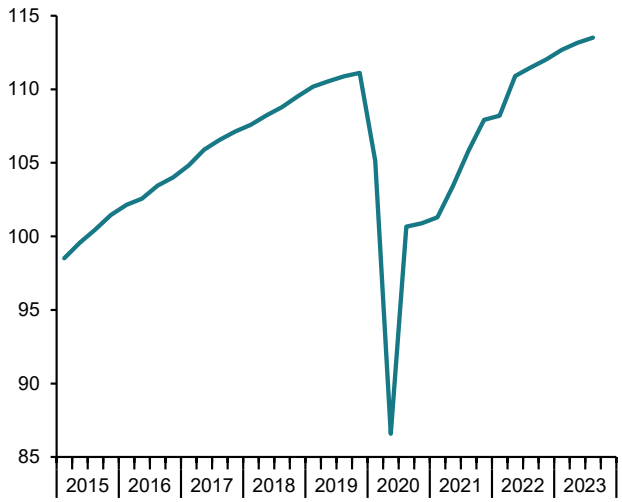


Chart 1.2 - Contribution to GDP annual growth

Percentage points

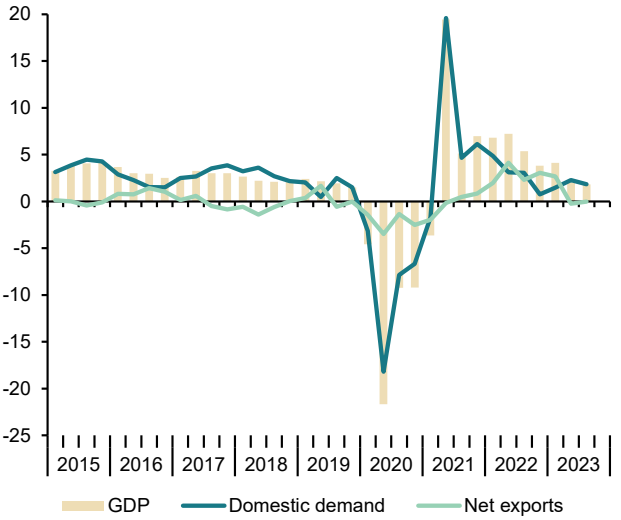


Chart 1.3 - Consumption

Level, 2015=100

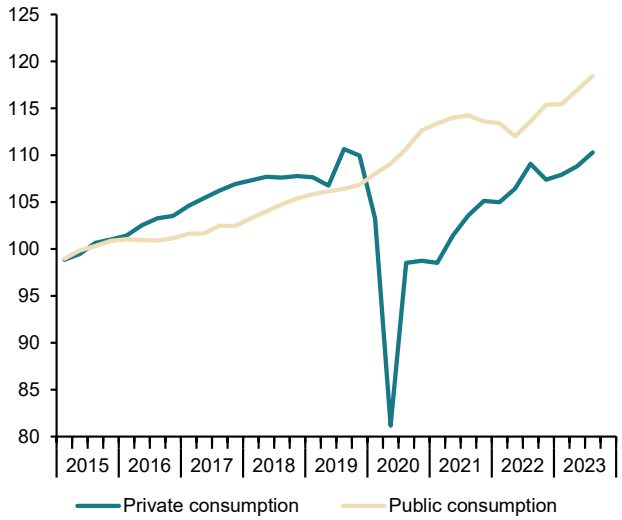


Chart 1.4 - Gross fixed capital formation

Level, 2015=100

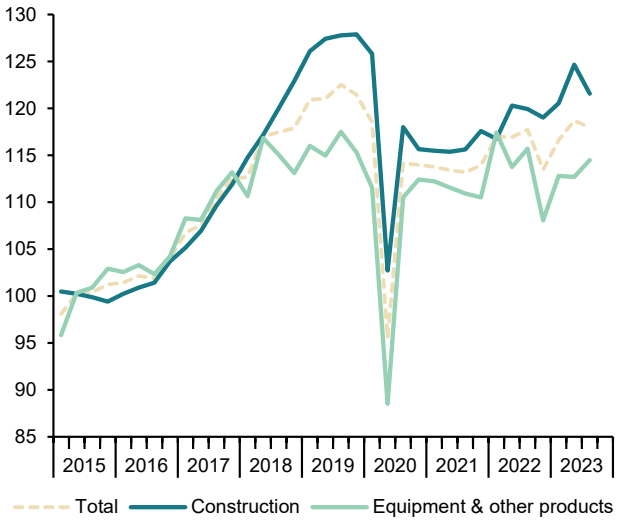


Table 2

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		-11.1	1.1	-11.2	-15.1	-14.6	-11.2	-1.7	-14.2	-12.1
2021		6.1	4.2	5.4	13.1	-1.0	6.8	1.2	8.9	10.0
2022		5.9	-19.8	2.6	4.4	3.2	8.0	-0.2	10.8	4.1
2023 (a)		3.0	-3.2	1.9	3.4	2.3	3.5	2.7	3.7	-0.6
2021	IV	6.7	-2.1	0.6	6.2	-1.1	9.0	-1.7	13.0	10.2
2022	I	6.6	-12.2	1.6	6.5	0.6	9.0	-0.9	12.5	8.8
	II	7.3	-20.7	3.6	6.0	4.8	9.5	-1.7	13.5	6.1
	III	5.6	-26.9	3.2	3.1	4.7	7.6	-0.3	10.2	2.6
	IV	4.3	-19.3	1.8	2.4	2.7	5.9	2.0	7.1	-0.7
2023	I	4.6	-7.4	4.4	5.2	4.0	5.0	2.6	5.8	0.0
	II	2.4	-2.5	1.0	2.2	2.1	2.9	2.8	2.9	-1.3
	III	2.0	1.2	0.4	2.8	0.9	2.6	2.7	2.5	-0.4
Chain-linked volumes. quarter-on-quarter percentage changes										
2021	IV	2.0	-3.4	2.4	1.8	2.2	2.1	-0.1	2.9	1.8
2022	I	0.2	-10.9	-1.2	-0.6	-0.7	1.0	-2.4	2.1	0.8
	II	2.6	-7.9	2.1	1.8	2.7	3.0	1.4	3.5	1.9
	III	0.8	-7.8	-0.1	0.1	0.4	1.3	0.9	1.4	-1.9
	IV	0.7	6.6	1.0	1.1	0.3	0.5	2.2	0.0	-1.4
2023	I	0.5	2.2	1.3	2.1	0.5	0.2	-1.8	0.9	1.5
	II	0.4	-3.1	-1.2	-1.1	0.8	0.9	1.7	0.7	0.5
	III	0.4	-4.3	-0.7	0.6	-0.7	0.9	0.8	1.0	-0.9
		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		1,021	3.1	16.1	12.0	6.0	74.9	20.2	54.6	9.6
2021		1,106	3.0	16.8	12.5	5.7	74.5	19.1	55.4	10.5
2022		1,226	2.6	17.4	12.5	5.4	74.6	17.8	56.8	9.9

** Seasonally and Working Day Adjusted.*

(a) Change of existing data over the same period last year.

Source: INE.

Chart 2.1 - GVA by sectors

Level, 2015=100

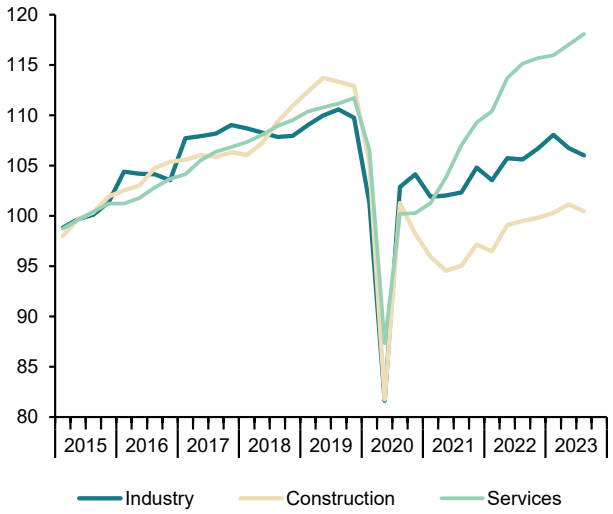


Chart 2.2 - GVA. Industry

Level, 2015=100

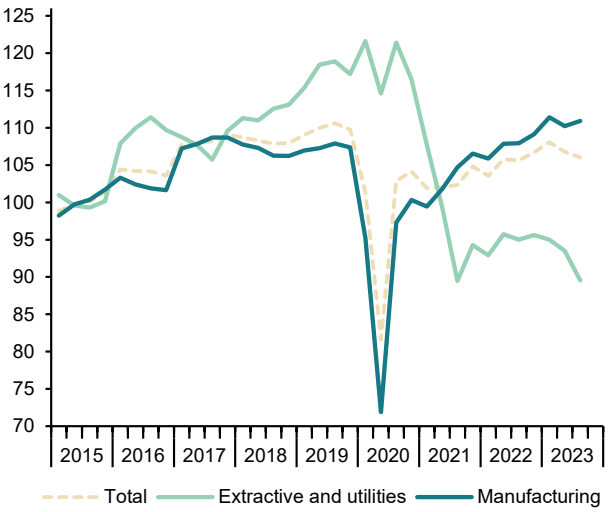


Chart 2.3 - GVA, services

Level, 2015=100

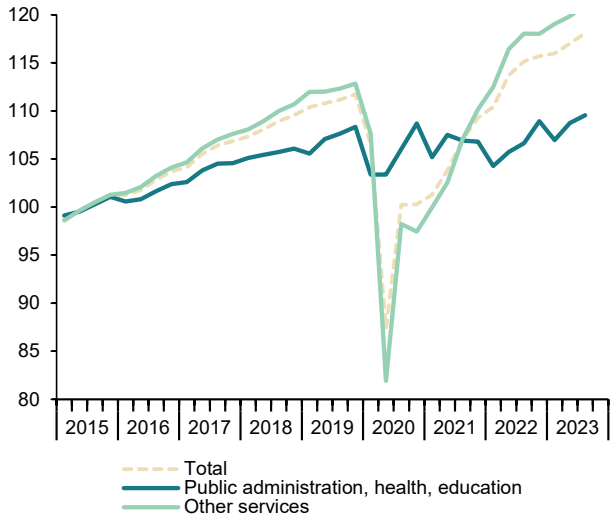


Chart 2.4 - GVA. structure by sectors

Percentage of value added at basic prices

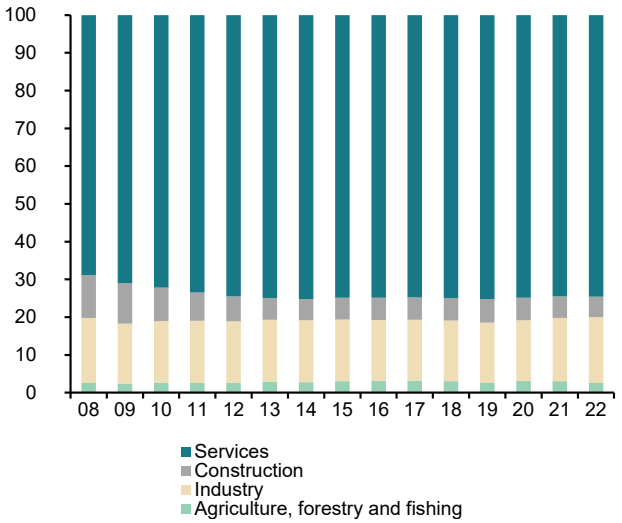


Table 3

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	102.0	101.6	98.7	106.9	108.7	98.3	102.7	104.5	102.4
2019		110.7	111.7	99.1	104.5	105.5	101.0	107.4	110.6	97.1	104.3	107.4	103.3
2020		98.3	104.5	94.1	107.4	114.1	108.1	91.2	104.8	87.0	107.6	123.7	111.7
2021		104.6	111.9	93.5	107.8	115.3	106.4	103.1	108.6	95.0	108.3	114.0	103.6
2022		110.7	116.0	95.4	110.9	116.3	103.1	107.7	111.5	96.6	110.2	114.2	97.5
2023		113.3	119.6	94.7	116.7	123.2	103.1	--	--	--	--	--	--
2024		115.0	121.2	94.9	120.2	126.7	102.5	--	--	--	--	--	--
2025		117.3	122.7	95.5	123.4	129.2	102.2	--	--	--	--	--	--
2022	IV	107.9	115.0	93.8	108.5	115.6	104.2	106.5	110.7	96.2	110.0	114.3	104.1
2022	I	108.2	114.9	94.2	108.9	115.7	103.6	105.9	109.0	97.2	106.1	109.2	96.4
	II	110.9	114.8	96.6	109.5	113.3	101.6	107.8	112.5	95.9	107.4	112.0	97.4
	III	111.5	117.1	95.2	112.2	117.8	104.9	107.9	111.8	96.5	113.5	117.6	99.1
	IV	112.0	117.3	95.5	113.1	118.4	102.1	109.1	112.8	96.7	113.9	117.7	97.0
2023	I	112.7	117.8	95.6	115.5	120.7	101.7	111.4	113.2	98.4	111.7	113.5	90.9
	II	113.2	118.3	95.6	115.3	120.5	101.5	110.2	112.3	98.1	113.1	115.3	94.2
	III	113.5	121.2	93.6	117.6	125.5	105.3	110.9	111.9	99.1	118.3	119.4	95.4
		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	1.9	1.8	0.6	-1.1	2.0	-3.1	1.1	4.3	2.3
2019		2.0	3.3	-1.3	2.5	3.8	2.4	0.5	1.7	-1.2	1.6	2.8	0.8
2020		-11.2	-6.5	-5.0	2.8	8.2	7.0	-15.1	-5.2	-10.4	3.1	15.2	8.1
2021		6.4	7.1	-0.6	0.4	1.1	-1.5	13.1	3.6	9.2	0.7	-7.8	-7.2
2022		5.8	3.7	2.0	2.9	0.9	-3.1	4.4	2.7	1.7	1.8	0.1	-5.9
2023		2.4	3.1	-0.7	5.2	5.9	0.0	--	--	--	--	--	--
2024		1.5	1.3	0.2	3.0	2.8	-0.5	--	--	--	--	--	--
2025		2.0	1.3	0.7	2.7	2.0	-0.3	--	--	--	--	--	--
2022	IV	7.0	6.5	0.4	1.0	0.6	-3.4	6.2	3.6	2.5	0.6	-1.9	-1.7
2022	I	6.8	5.3	1.5	1.1	-0.3	-4.1	6.5	2.0	4.4	0.8	-3.4	-5.0
	II	7.2	5.0	2.1	2.5	0.3	-3.8	6.0	3.6	2.3	0.7	-1.5	-6.6
	III	5.4	2.8	2.5	3.5	1.0	-2.7	3.1	3.3	-0.2	2.0	2.2	-5.3
	IV	3.8	2.0	1.8	4.3	2.4	-2.0	2.4	1.9	0.5	3.5	3.0	-6.8
2023	I	4.1	2.5	1.6	6.0	4.4	-1.8	5.2	3.8	1.3	5.3	3.9	-5.7
	II	2.0	3.1	-1.0	5.3	6.4	-0.1	2.2	-0.1	2.3	5.3	2.9	-3.2
	III	1.8	3.5	-1.6	4.8	6.5	0.4	2.8	0.1	2.7	4.3	1.6	-3.8

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

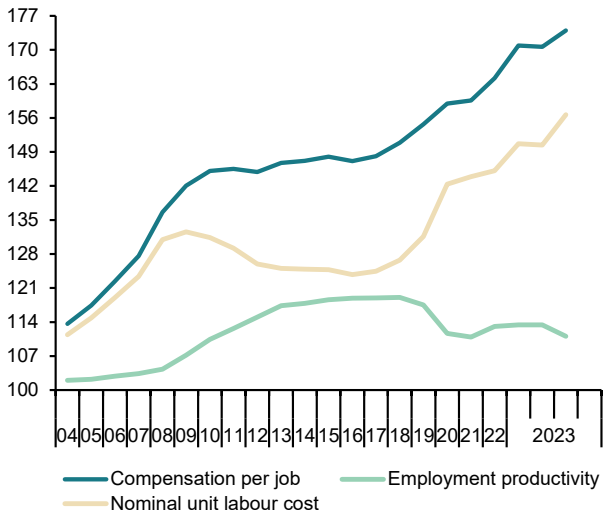
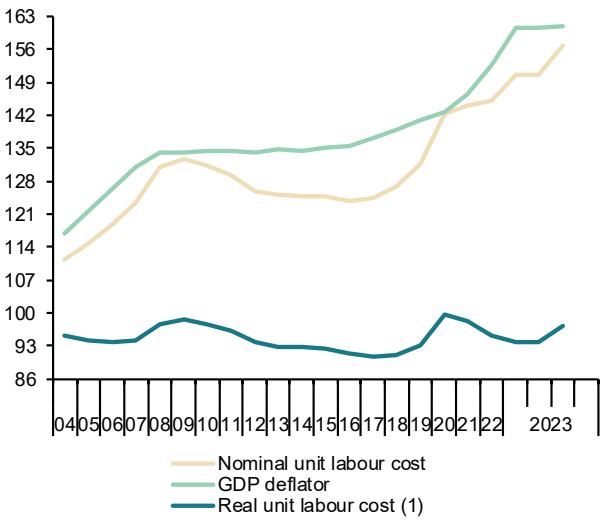


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

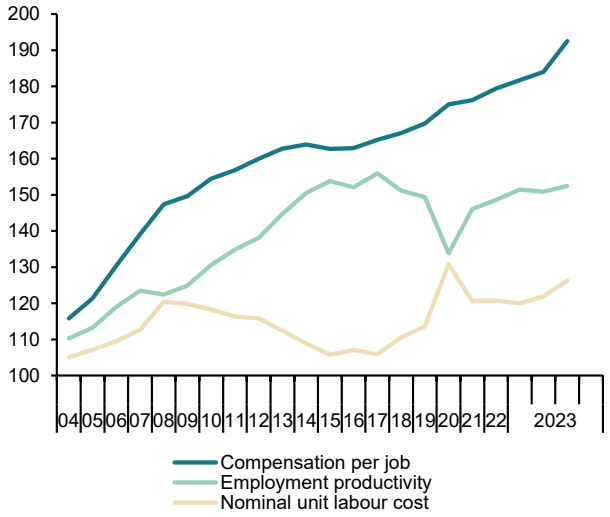
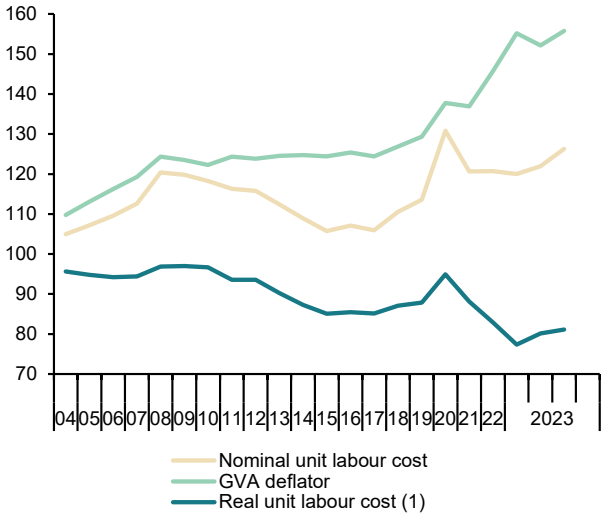


Chart 3.4 - Real ULC, manufacturing industry

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	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation 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	244.3	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	546.1	531.6	1,193.8	924.8	269.0	246.4	45.4	44.2	22.3	20.5	1.9	2.4
2019		1,245.5	580.2	537.7	1,235.1	949.5	285.7	259.4	46.6	43.2	22.9	20.8	2.1	2.4
2020		1,119.0	560.7	456.4	1,109.8	873.9	236.0	229.1	50.1	40.8	21.1	20.5	0.6	1.1
2021		1,222.3	599.4	496.5	1,219.8	946.6	273.2	263.9	49.0	40.6	22.4	21.6	0.8	1.6
2022		1,346.4	643.0	571.4	1,338.3	1,040.8	297.5	289.2	47.8	42.4	22.1	21.5	0.6	1.5
2023		1,460.3	698.8	624.2	1,443.4	1,106.6	336.8	300.1	47.9	42.7	23.1	20.5	2.5	3.4
2024		1,531.6	730.2	644.8	1,511.7	1,159.7	351.9	315.6	47.7	42.1	23.0	20.6	2.4	3.2
2025		1,597.9	760.8	670.8	1,578.7	1,207.6	371.1	332.4	47.6	42.0	23.2	20.8	2.4	3.0
2021	IV	1,222.3	599.4	496.5	1,219.8	946.6	273.2	263.9	49.0	40.6	22.4	21.6	0.8	1.6
2022	I	1,254.5	610.1	511.2	1,253.4	970.7	282.7	271.2	48.6	40.7	22.5	21.6	0.9	1.3
	II	1,289.9	622.4	529.5	1,285.6	995.2	290.4	279.0	48.3	41.1	22.5	21.6	0.9	1.4
	III	1,318.9	632.3	547.4	1,314.6	1,022.3	292.3	285.0	47.9	41.5	22.2	21.6	0.6	1.3
	IV	1,346.4	643.0	571.4	1,338.3	1,040.8	297.5	289.2	47.8	42.4	22.1	21.5	0.6	1.5
2023	I	1,381.3	657.0	591.8	1,371.8	1,059.1	312.7	291.3	47.6	42.8	22.6	21.1	1.6	2.6
	II	1,410.2	670.6	605.5	1,396.1	1,076.2	319.9	293.9	47.6	42.9	22.7	20.8	1.8	3.0
	III	1,437.5	685.0	614.6	1,416.6	1,090.4	326.1	294.2	47.7	42.8	22.7	20.5	2.2	3.4
		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	4.3	2.4	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	-3.4	-15.1	-10.1	-8.0	-17.4	-11.7	3.5	-2.4	-1.8	-0.4	-1.5	-1.4
2021		9.2	6.9	8.8	9.9	8.3	15.8	15.2	-1.1	-0.2	1.3	1.1	0.1	0.6
2022		10.2	7.3	15.1	9.7	10.0	8.9	9.6	-1.3	1.8	-0.3	-0.1	-0.1	-0.1
2023		8.5	8.7	9.2	7.9	6.3	13.2	3.8	0.1	0.3	1.0	-0.9	1.9	1.9
2024		4.9	4.5	3.3	4.7	4.8	4.5	5.2	-0.2	-0.6	-0.1	0.1	-0.1	-0.2
2025		4.3	4.2	4.0	4.4	4.1	5.4	5.3	-0.1	-0.1	0.2	0.2	0.0	-0.2
2021	IV	9.2	6.9	8.8	9.9	8.3	15.8	15.2	-1.1	-0.2	1.3	1.1	0.1	0.6
2022	I	12.6	8.9	12.8	13.4	11.4	20.7	17.8	-1.7	0.1	1.5	1.0	0.6	0.2
	II	10.5	7.7	11.6	10.8	9.4	16.1	14.7	-1.3	0.4	1.1	0.8	0.3	0.1
	III	10.9	7.4	14.2	11.0	10.5	12.7	13.7	-1.6	1.2	0.4	0.5	-0.2	-0.5
	IV	10.2	7.3	15.1	9.7	10.0	8.9	9.6	-1.3	1.8	-0.3	-0.1	-0.1	-0.1
2023	I	10.1	7.7	15.8	9.4	9.1	10.6	7.4	-1.1	2.1	0.1	-0.5	0.6	1.3
	II	9.3	7.7	14.4	8.6	8.1	10.2	5.3	-0.7	1.9	0.2	-0.8	1.0	1.6
	III	9.0	8.3	12.3	7.8	6.7	11.6	3.2	-0.3	1.3	0.5	-1.1	1.7	2.2

(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

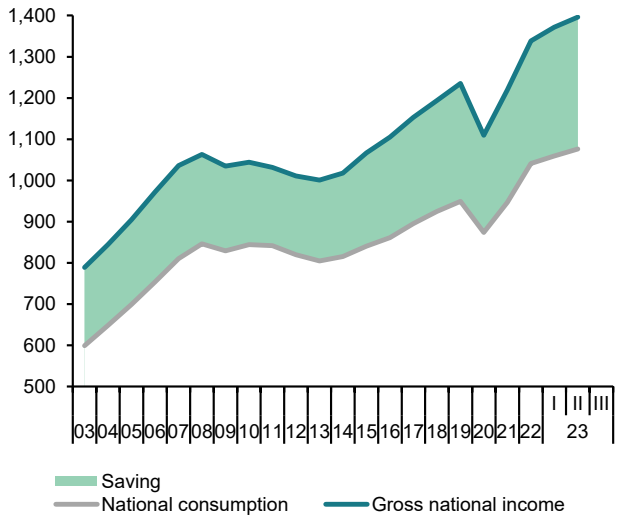


Chart 4.2 - National income, consumption and saving rate

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

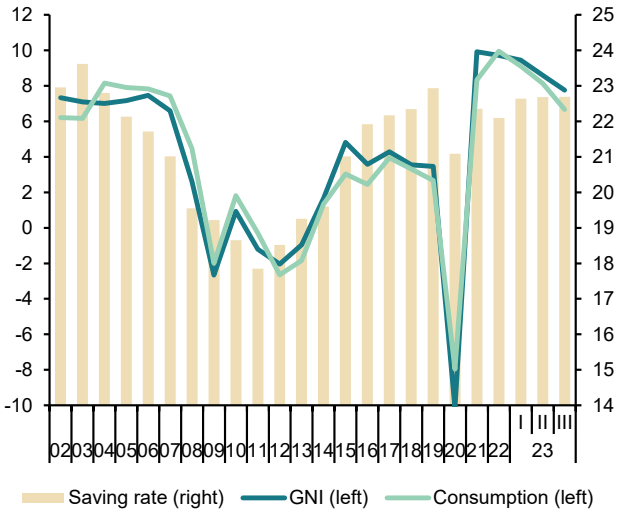


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

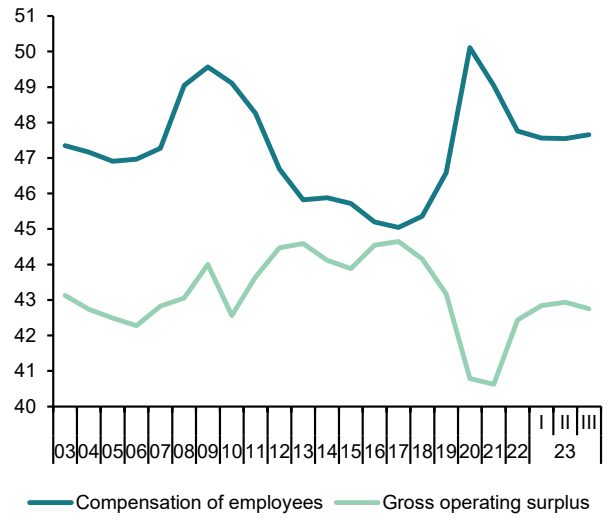


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

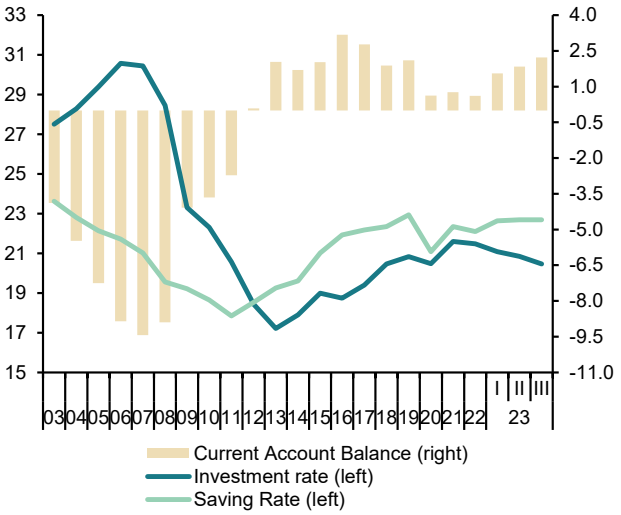


Table 5

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		743.8	699.5	41.5	40.7	5.6	3.4	-0.1	270.8	199.5	176.7	16.6	14.7	2.1
2019		781.4	714.5	64.1	43.4	8.2	3.5	1.6	275.2	202.4	186.2	16.2	15.0	1.5
2020		764.8	627.5	133.4	40.8	17.4	3.6	8.2	215.3	150.6	151.0	13.5	13.5	0.5
2021		799.3	687.1	110.0	52.5	13.8	4.3	4.8	236.7	171.4	173.1	14.0	14.2	0.5
2022		832.2	766.6	63.4	59.7	7.6	4.4	0.2	291.9	216.4	182.3	16.1	13.5	3.1
2023		919.0	816.7	100.2	58.8	10.9	4.0	2.8	311.9	216.1	187.8	14.8	12.9	2.1
2024		943.9	859.9	81.8	58.8	8.7	3.8	1.5	321.0	228.4	200.9	14.9	13.1	2.0
2025		977.6	898.1	77.3	61.8	7.9	3.9	1.0	335.4	237.2	215.0	14.8	13.5	1.6
2021	IV	799.3	687.1	110.0	52.5	13.8	4.3	4.8	236.7	171.4	173.1	14.0	14.2	0.5
2022	I	807.3	713.6	91.3	57.3	11.3	4.6	2.8	247.1	180.8	173.0	14.4	13.8	1.2
	II	815.9	735.1	78.7	63.8	9.6	5.0	1.3	259.3	187.9	171.9	14.6	13.3	1.9
	III	820.7	755.7	62.7	63.8	7.6	4.8	-0.1	274.8	199.8	178.6	15.1	13.5	2.2
	IV	832.2	766.6	63.4	59.7	7.6	4.4	0.2	291.9	216.4	182.3	16.1	13.5	3.1
2023	I	853.2	780.4	70.5	58.0	8.3	4.2	0.8	303.0	224.2	185.5	16.2	13.4	3.4
	II	880.6	790.9	87.5	58.4	9.9	4.1	2.0	307.5	221.8	187.4	15.7	13.3	3.0
	III	900.8	799.5	98.8	59.1	11.0	4.1	2.7	305.4	216.2	184.8	15.1	12.9	2.8
		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		2.9	3.2	-0.8	10.6	-0.2	0.2	-0.3	1.4	-0.4	10.2	-0.7	0.9	-1.5
2019		5.1	2.2	54.6	6.8	2.6	0.1	1.7	1.6	1.4	5.4	-0.3	0.3	-0.6
2020		-2.1	-12.2	108.3	-6.1	9.2	0.2	6.6	-21.8	-25.6	-18.9	-2.8	-1.5	-1.1
2021		4.5	9.5	-17.6	28.9	-3.7	0.7	-3.4	9.9	13.8	14.6	0.6	0.7	0.0
2022		4.1	11.6	-42.4	13.7	-6.1	0.1	-4.6	23.3	26.2	5.3	2.0	-0.6	2.6
2023		10.4	6.5	58.0	-1.5	3.3	-0.4	2.6	6.9	-0.1	3.0	-1.3	-0.7	-1.0
2024		2.7	5.3	-18.3	0.0	-2.2	-0.2	-1.3	2.9	5.7	7.0	0.1	0.3	-0.1
2025		3.6	4.4	-5.6	5.0	-0.8	0.0	-0.5	4.5	3.8	7.0	-0.1	0.3	-0.4
2021	IV	4.5	9.5	-17.6	28.9	-3.7	0.7	-3.4	9.9	13.8	14.6	0.6	0.7	0.0
2022	I	5.3	15.5	-37.0	33.3	-7.6	0.7	-6.2	16.8	21.1	13.2	1.0	0.0	1.0
	II	4.4	12.3	-36.2	42.4	-6.1	1.1	-5.3	15.6	19.3	5.9	1.1	-0.6	1.8
	III	4.2	13.6	-47.6	38.1	-7.5	0.9	-6.2	21.6	22.5	8.2	1.4	-0.4	1.8
	IV	4.1	11.6	-42.4	13.7	-6.1	0.1	-4.6	23.3	26.2	5.3	2.0	-0.6	2.6
2023	I	5.7	9.4	-22.8	1.2	-3.0	-0.4	-2.0	22.6	24.0	7.2	1.8	-0.4	2.1
	II	7.9	7.6	11.2	-8.5	0.3	-0.8	0.7	18.6	18.0	9.0	1.1	-0.1	1.2
	III	9.8	5.8	57.7	-7.3	3.3	-0.7	2.8	11.2	8.2	3.4	-0.1	-0.7	0.6

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

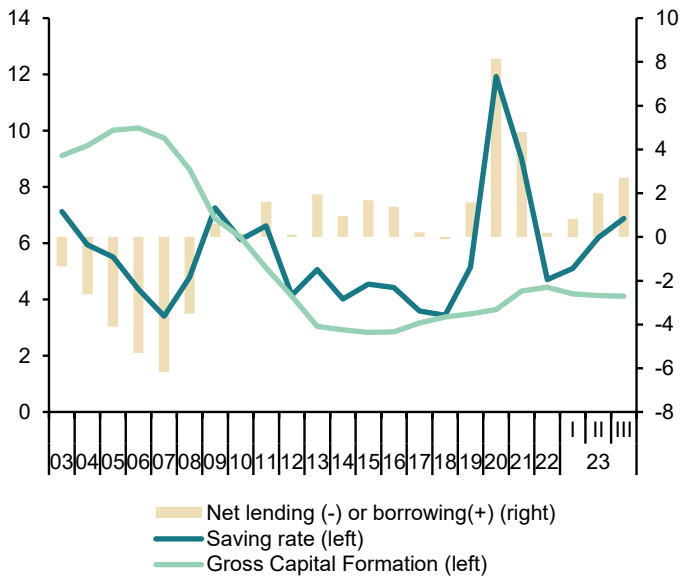


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

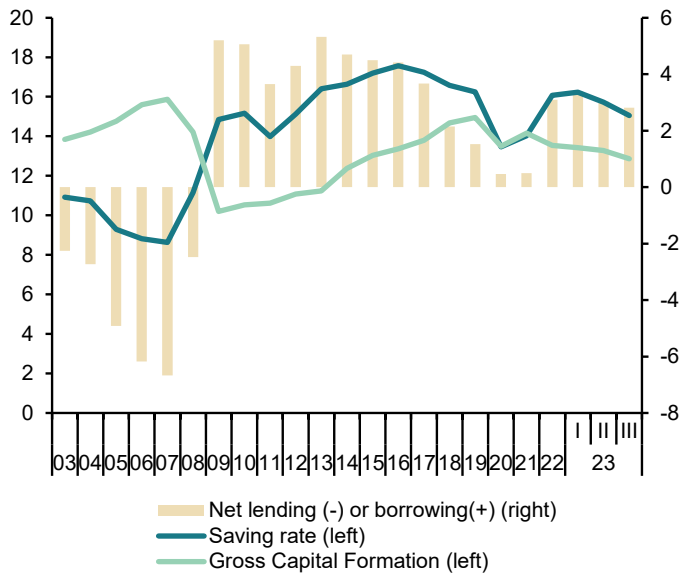


Table 6

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 contribu-tions	Capital and other revenue	Total	Compen-sation of employees	Interme-diate con-sumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expendi-ture	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		146.9	143.5	171.7	67.1	529.2	148.1	72.2	26.2	263.4	60.1	41.4	611.5	-82.3
2022		160.7	164.8	180.2	68.4	574.1	154.9	79.7	31.8	267.0	53.3	51.1	637.8	-63.7
2023		163.8	189.4	196.1	66.8	616.1	164.2	85.7	35.6	289.1	52.3	47.0	674.0	-57.8
2024		173.5	190.1	206.2	70.2	640.0	169.8	88.9	39.5	303.1	54.0	38.1	693.3	-53.3
2025		182.7	197.1	216.2	71.8	667.8	174.0	93.5	41.8	316.3	56.8	38.5	720.9	-53.0
2021	IV	146.9	143.5	171.7	67.1	529.2	148.1	72.2	26.2	263.4	60.1	41.4	611.5	-82.3
2022	I	153.6	147.3	173.3	67.6	541.7	149.4	74.0	26.5	262.9	56.1	40.5	609.4	-67.6
	II	158.6	151.9	175.7	69.4	555.7	150.5	75.4	28.2	263.4	58.0	42.3	617.7	-62.0
	III	162.1	160.5	177.6	68.9	569.1	151.9	77.6	29.6	265.3	53.9	45.4	623.7	-54.7
	IV	160.7	164.8	180.2	68.4	574.1	154.9	79.7	31.8	267.0	53.3	51.1	637.8	-63.7
2023	I	162.6	168.1	184.1	71.5	586.3	156.8	81.4	31.8	271.6	54.6	51.0	647.2	-60.9
	II	162.3	172.4	188.4	73.4	596.4	159.5	83.4	32.8	279.2	55.5	50.3	660.7	-64.2
	III	163.1	177.3	192.5	73.7	606.6	161.9	84.4	33.8	284.6	57.1	47.4	669.2	-62.6
		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	23.4	4.0	3.7	51.9	-10.1
2021		12.0	11.7	14.0	5.5	43.3	12.1	5.9	2.1	21.6	4.9	3.4	50.0	-6.7
2022		11.9	12.2	13.4	5.1	42.6	11.5	5.9	2.4	19.8	4.0	3.8	47.4	-4.7
2023		11.2	13.0	13.4	4.6	42.2	11.2	5.9	2.4	19.8	3.6	3.2	46.2	-4.0
2024		11.3	12.4	13.5	4.6	41.8	11.1	5.8	2.6	19.8	3.5	2.5	45.3	-3.5
2025		11.4	12.3	13.5	4.5	41.8	10.9	5.9	2.6	19.8	3.6	2.4	45.1	-3.3
2021	IV	12.0	11.7	14.0	5.5	43.3	12.1	5.9	2.1	21.6	4.9	3.4	50.0	-6.7
2022	I	12.2	11.7	13.8	5.4	43.2	11.9	5.9	2.1	21.0	4.5	3.2	48.6	-5.4
	II	12.3	11.8	13.6	5.4	43.1	11.7	5.8	2.2	20.4	4.5	3.3	47.9	-4.8
	III	12.3	12.2	13.5	5.2	43.1	11.5	5.9	2.2	20.1	4.1	3.4	47.3	-4.1
	IV	11.9	12.2	13.4	5.1	42.6	11.5	5.9	2.4	19.8	4.0	3.8	47.4	-4.7
2023	I	11.8	12.2	13.3	5.2	42.4	11.4	5.9	2.3	19.7	4.0	3.7	46.9	-4.4
	II	11.5	12.2	13.4	5.2	42.3	11.3	5.9	2.3	19.8	3.9	3.6	46.8	-4.6
	III	11.3	12.3	13.4	5.1	42.2	11.3	5.9	2.3	19.8	4.0	3.3	46.6	-4.4

Source: IGAE and Funcas (Forecasts).

Chart 6.1 - Public sector: Revenue. expenditure and deficit

Percentage of GDP, 4-quarter moving averages

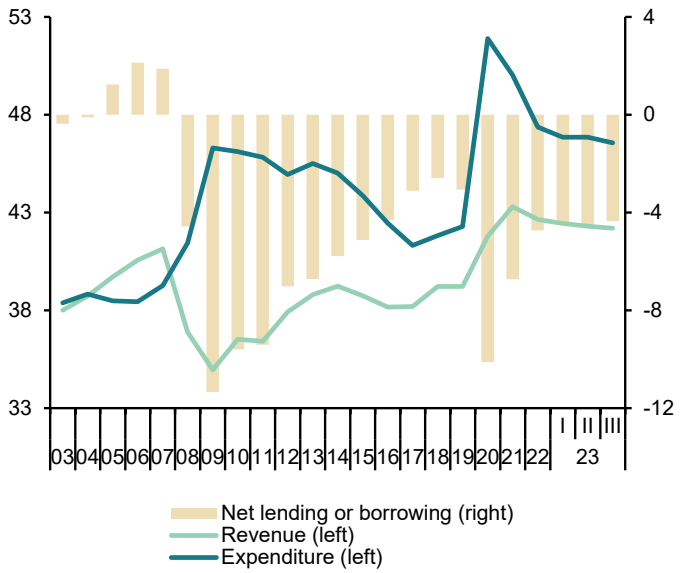


Chart 6.2 - Public sector: Main expenditures

Percentage of GDP

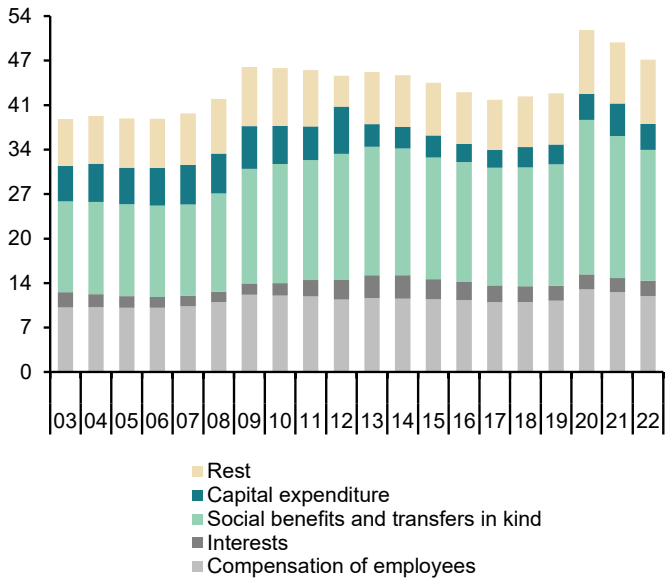


Table 7

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	-0.2	3.4	-11.7	-82.3	1,280.1	312.6	22.8	97.2	1,428.1
2022		-41.2	-15.1	-1.5	-5.9	-63.7	1,358.9	317.1	23.1	106.2	1,502.8
2023		--	--	--	--	-57.8	--	--	--	--	1,583.6
2024		--	--	--	--	-53.3	--	--	--	--	1,644.9
2025		--	--	--	--	-53.0	--	--	--	--	1,701.0
2021	IV	-73.7	-0.2	3.4	-11.7	-82.3	1,280.1	312.6	22.8	97.2	1,428.1
2022	I	-63.0	3.4	2.9	-11.0	-67.6	1,306.8	309.8	23.2	99.2	1,454.7
	II	-60.0	-0.5	2.5	-3.9	-62.0	1,326.1	316.7	23.6	99.2	1,476.2
	III	-32.7	-15.2	-1.6	-5.3	-54.7	1,359.4	314.9	22.8	99.2	1,504.7
	IV	-41.2	-15.1	-1.5	-5.9	-63.7	1,358.9	317.1	23.1	106.2	1,502.8
2023	I	-36.2	-17.7	-0.9	-5.5	-60.3	1,387.7	322.4	23.1	106.2	1,535.4
	II	-38.8	-18.2	-2.1	-4.2	-63.3	1,420.2	327.3	23.8	106.2	1,568.7
	III	-47.4	-8.9	0.2	-4.5	-60.6	1,434.7	319.9	23.3	106.2	1,577.3
		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	107.8	27.2	2.0	7.6	120.3
2021		-6.0	0.0	0.3	-1.0	-6.7	104.7	25.6	1.9	8.0	116.8
2022		-3.1	-1.1	-0.1	-0.4	-4.7	100.9	23.6	1.7	7.9	111.6
2023		--	--	--	--	-4.0	--	--	--	--	108.4
2024		--	--	--	--	-3.5	--	--	--	--	107.4
2025		--	--	--	--	-3.3	--	--	--	--	106.4
2021	IV	-6.0	0.0	0.3	-1.0	-6.7	104.7	25.6	1.9	8.0	116.8
2022	I	-5.0	0.3	0.2	-0.9	-5.4	104.2	24.7	1.8	7.9	116.0
	II	-4.7	0.0	0.2	-0.3	-4.8	102.8	24.6	1.8	7.7	114.4
	III	-2.5	-1.1	-0.1	-0.4	-4.1	103.1	23.9	1.7	7.5	114.1
	IV	-3.1	-1.1	-0.1	-0.4	-4.7	100.9	23.6	1.7	7.9	111.6
2023	I	-2.6	-1.3	-0.1	-0.4	-4.4	100.5	23.3	1.7	7.7	111.2
	II	-2.8	-1.3	-0.1	-0.3	-4.5	100.7	23.2	1.7	7.5	111.2
	III	-3.3	-0.6	0.0	-0.3	-4.2	99.8	22.3	1.6	7.4	109.7

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

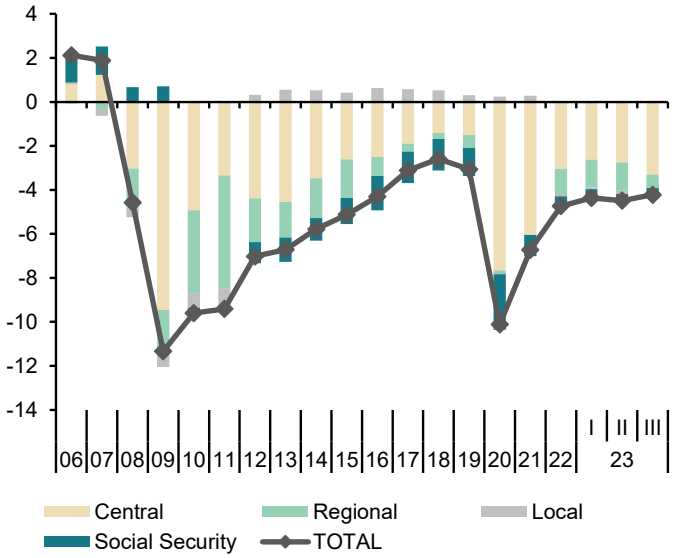


Chart 7.2 - Government debt

Percent of GDP

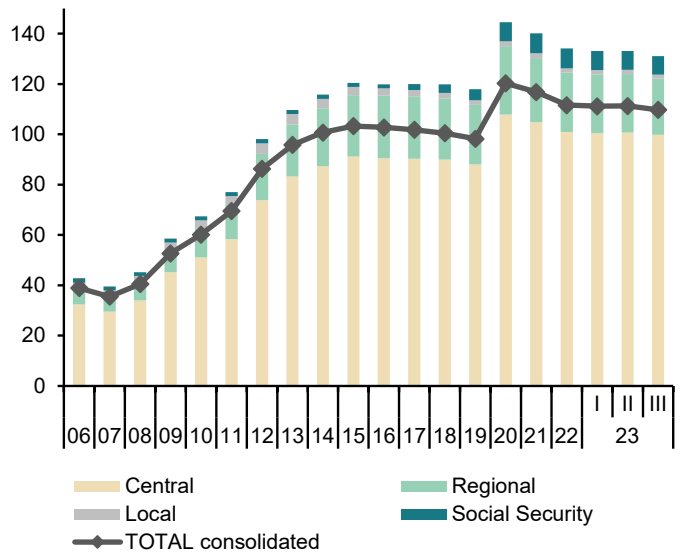


Table 8

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	89.9	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	1.6
2023 (b)	100.7	52.5	20,193.2	19.2	105.8	2,363.7	48.0	-6.5	105.9	-11.1
2022 I	108.4	52.5	19,464.4	19.9	104.8	2,310.8	55.8	6.6	104.2	11.5
II	101.7	55.0	19,646.3	20.0	106.8	2,320.5	53.2	0.3	108.9	7.2
III	97.1	50.5	19,727.0	19.5	106.6	2,330.0	49.2	-5.0	108.0	-4.1
IV	98.0	49.1	19,818.8	18.9	105.6	2,336.8	45.6	-5.3	106.5	-8.1
2023 I	100.5	55.2	19,970.5	19.3	106.1	2,347.6	50.1	-4.4	106.1	-8.7
II	101.2	54.7	20,180.9	18.9	104.9	2,359.6	48.5	-5.3	105.5	-7.6
III	100.7	50.1	20,263.8	19.1	104.6	2,368.9	47.4	-8.2	105.4	-13.9
IV (b)	100.3	50.1	20,352.6	19.3	105.2	2,378.2	45.8	-8.2	105.7	-14.3
2023 Oct	100.4	50.0	20,319.3	19.2	104.7	2,374.3	45.1	-8.5	105.5	-16.1
Nov	99.0	49.8	20,349.3	19.3	105.7	2,377.7	46.3	-9.6	106.0	-12.9
Dec	101.4	50.4	20,389.2	19.4	--	2,382.7	46.2	-6.5	--	-13.8
					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	-2.0	-0.7	1.7	--	--	-1.2	--
2022 I	--	--	1.1	-2.1	-0.1	0.7	--	--	-1.4	--
II	--	--	0.9	0.4	2.0	0.4	--	--	4.6	--
III	--	--	0.4	-2.1	-0.2	0.4	--	--	-0.8	--
IV	--	--	0.5	-3.3	-1.0	0.3	--	--	-1.4	--
2023 I	--	--	0.8	1.9	0.5	0.5	--	--	-0.4	--
II	--	--	1.1	-1.8	-1.1	0.5	--	--	-0.6	--
III	--	--	0.4	0.9	-0.3	0.4	--	--	-0.1	--
IV (e)	--	--	0.4	1.2	0.6	0.4	--	--	0.3	--
2023 Oct	--	--	0.1	1.2	-0.7	0.1	--	--	0.4	--
Nov	--	--	0.1	0.9	1.0	0.1	--	--	0.5	--
Dec	--	--	0.2	0.2	--	0.2	--	--	--	--

(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, 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 Commision, 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

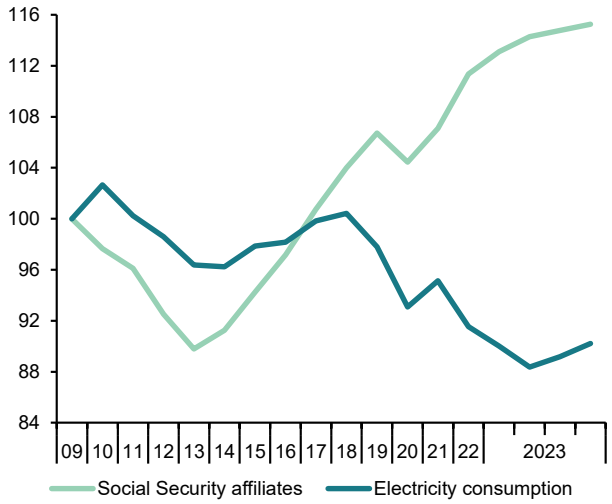


Chart 8.2 - General activity indicators (II)

Index

Chart 8.3 - Industrial sector indicators (I)

Level, 2009=100

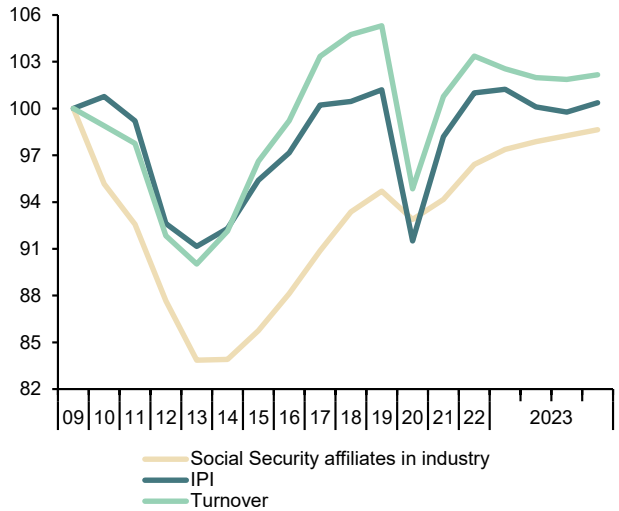


Chart 8.4 - Industrial sector indicators (II)

Index

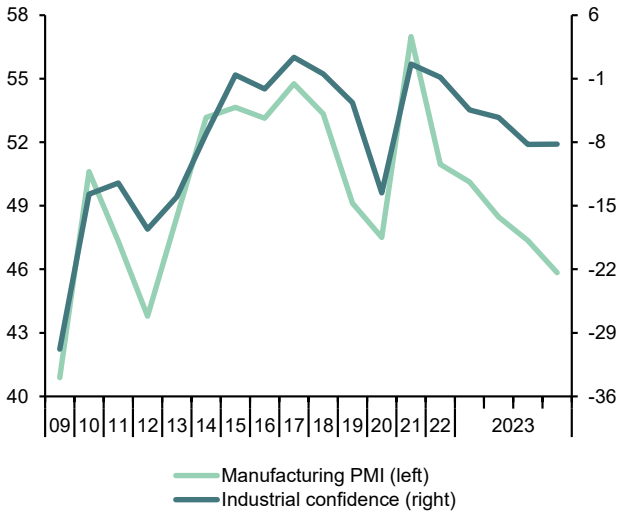


Table 9

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	Balance of responses	EUR Billions, monthly average	Million m^2, 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	1.5	1.7	14,169.1	122.8	53.9	28.6	23.1	13.9
2020	1,233.1	110.6	-17.5	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)	1,384.6	121.0	8.7	2.3	1.7	15,393.2	119.9	53.6	29.9	23.5	13.9
2022 I	1,323.0	126.4	4.8	1.7	1.8	14,737.2	117.2	52.2	25.0	17.5	17.6
II	1,321.0	130.1	9.8	2.3	1.5	14,921.4	120.0	55.9	26.6	19.9	15.8
III	1,335.5	122.9	6.1	2.4	1.5	14,987.3	120.6	51.0	27.4	21.1	10.2
IV	1,356.4	125.3	14.8	3.1	1.8	15,062.4	121.6	50.8	27.9	22.1	6.1
2023 I	1,378.4	125.2	3.1	2.0	1.7	15,187.7	121.2	56.3	28.5	22.8	11.7
II	1,381.2	120.1	13.1	2.7	1.7	15,384.3	120.1	56.0	28.8	23.2	13.8
III	1,383.7	116.4	5.9	2.5	1.5	15,459.0	120.4	50.8	29.0	23.8	14.7
IV (b)	1,395.3	114.6	12.8	1.9	1.9	15,537.7	121.6	51.2	29.7	24.3	15.6
2023 Oct	1,390.6	113.1	8.3	1.7	1.9	15,514.3	120.9	51.1	29.8	24.2	15.6
Nov	1,393.3	116.1	15.8	2.0	--	15,533.4	122.4	51.0	29.6	24.3	14.7
Dec	1,401.9	--	14.2	--	--	15,565.4	--	51.5	--	24.5	16.4
				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	--	5.1	1.3	2.8	3.0	--	0.9	5.3	--
2020	-1.7	-11.3	--	-25.8	-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	--	85.4	103.4	--
2023 (d)	3.8	-5.5	--	1.9	1.4	3.1	0.9	--	8.4	16.3	--
2022 I	1.0	0.8	--	32.7	20.1	1.3	0.6	--	5.0	4.5	--
II	-0.1	2.9	--	21.1	-10.9	1.3	2.4	--	6.2	13.8	--
III	1.1	-5.5	--	19.7	-9.7	0.4	0.5	--	3.1	6.2	--
IV	1.6	2.0	--	44.8	7.2	0.5	0.8	--	1.7	4.4	--
2023 I	1.6	-0.1	--	15.2	-3.7	0.8	-0.3	--	2.3	3.3	--
II	0.2	-4.1	--	21.0	12.2	1.3	-0.9	--	1.0	2.0	--
III	0.2	-3.1	--	1.9	-0.3	0.5	0.2	--	0.6	2.5	--
IV (e)	0.8	-1.6	--	-33.3	-5.2	0.5	1.0	--	2.7	2.1	--
2023 Oct	0.2	-2.4	--	-36.0	-5.2	0.2	0.7	--	1.6	0.9	--
Nov	0.2	2.7	--	-30.7	--	0.1	1.3	--	-0.6	0.4	--
Dec	0.6	--	--	--	--	0.2	--	--	--	0.7	--

(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 Commision, 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

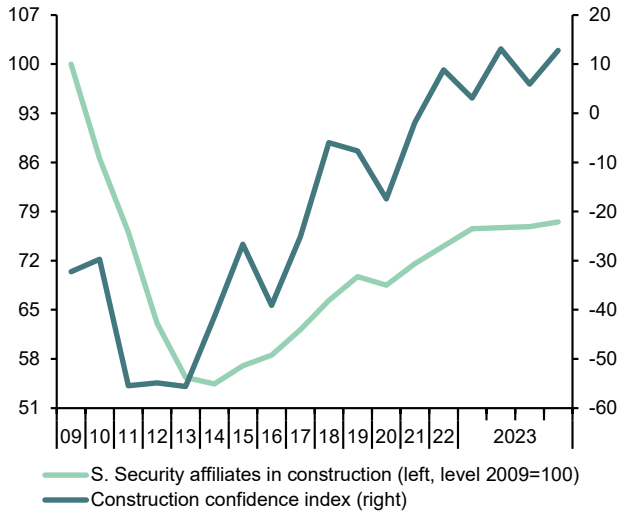


Chart 9.2 - Construction indicators (II)

Level, 2009=100

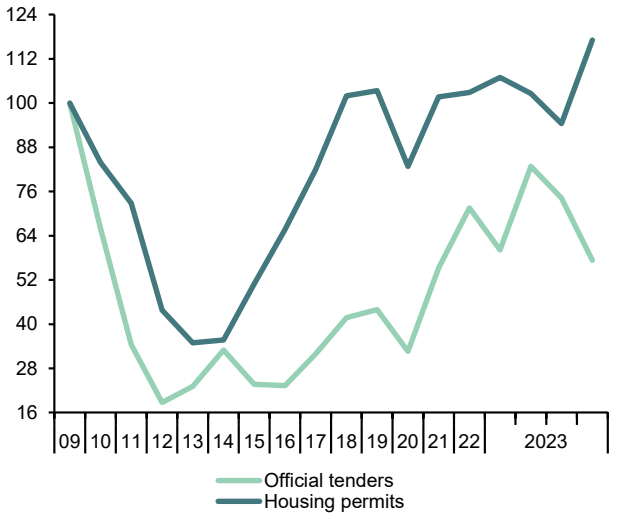


Chart 9.3 - Services indicators (I)

Level, 2009=100

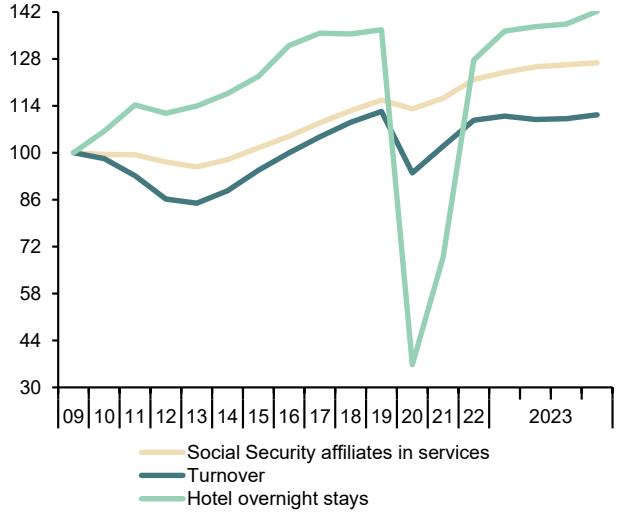


Chart 9.4 - Services indicators (II)

Index

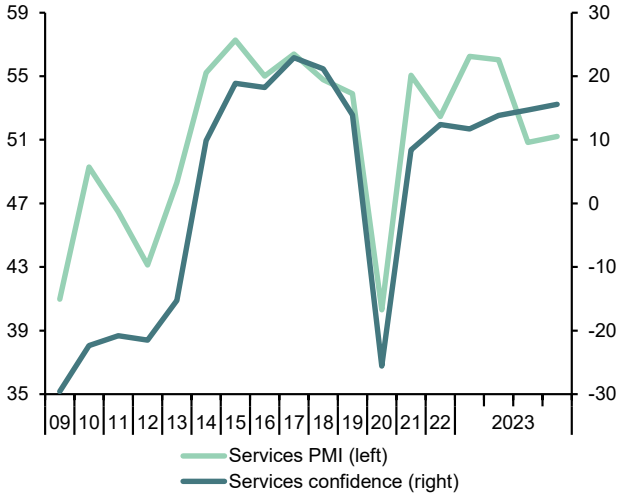


Table 10

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)	109.4	86.7	-19.2	10.4	-6.8	120.0	17.2	17.9	138.2	141.5
2022 I	102.4	62.9	-18.0	9.4	0.9	117.2	12.7	33.8	129.4	119.4
II	104.8	76.6	-27.0	10.3	2.6	118.5	13.3	29.8	134.3	121.6
III	104.8	85.2	-32.9	10.2	-8.5	119.3	14.3	21.7	136.8	126.1
IV	107.6	85.3	-27.9	10.2	-6.1	119.6	15.5	27.5	139.3	131.3
2023 I	109.2	85.4	-22.7	10.2	-6.1	120.7	16.8	25.8	141.9	146.7
II	111.2	82.9	-19.1	10.2	-6.2	122.0	16.0	24.6	141.4	146.8
III	112.1	85.9	-15.7	9.9	-8.0	123.2	17.1	11.8	137.9	139.8
IV (b)	112.8	96.3	-19.2	10.1	-7.1	122.2	19.0	9.4	134.4	144.0
2023 Oct	112.3	110.4	-19.6	10.1	-11.3	123.6	19.0	16.2	135.1	140.9
Nov	113.3	96.3	-19.4	10.1	-5.5	120.8	20.5	7.7	133.7	147.1
Dec	--	82.2	-18.6	--	-4.4	--	17.6	4.4	--	--
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	--	32.3	--	6.5	-10.8	--	13.0	8.0
2023 (d)	6.4	13.7	--	1.1	--	3.0	24.1	--	5.0	16.3
2022 I	-3.0	-26.5	--	-1.2	--	5.7	-11.2	--	20.6	5.0
II	2.3	21.9	--	9.4	--	4.6	4.6	--	15.9	7.6
III	0.0	11.2	--	-0.6	--	2.6	7.5	--	7.8	15.6
IV	2.6	0.1	--	-0.2	--	0.9	8.0	--	7.6	17.5
2023 I	1.5	0.1	--	0.7	--	4.0	8.3	--	7.4	55.7
II	1.8	-3.0	--	-0.3	--	4.3	-4.9	--	-1.4	0.3
III	0.8	3.6	--	-3.3	--	4.0	7.3	--	-9.3	-17.7
IV (e)	0.6	12.1	--	1.9	--	-3.3	11.1	--	-9.9	12.6
2023 Oct	0.0	22.6	--	1.5	--	0.3	13.4	--	-1.0	2.7
Nov	0.9	-12.8	--	0.2	--	-2.3	7.8	--	-1.0	4.5
Dec	--	-14.6	--	--	--	--	-14.0	--	--	--

(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 Commision. 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

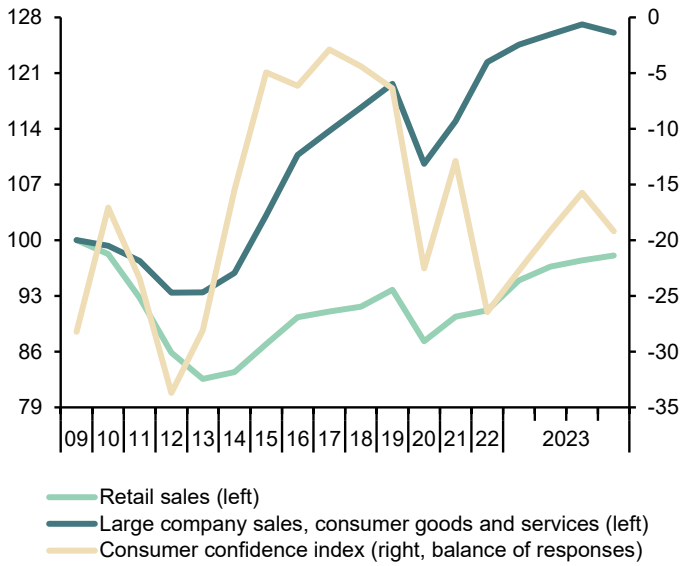


Chart 10.2 - Investment indicators

Level, 2009=100 and balance of responses

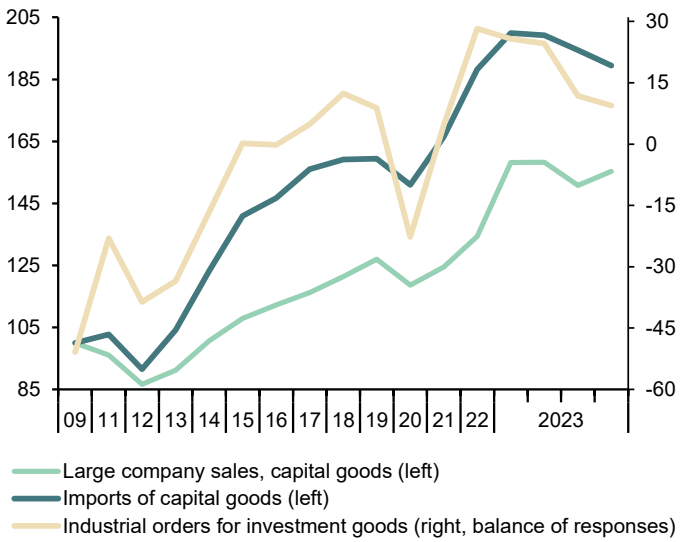


Table 11a

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)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted				Original	
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		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		40.5	23.9	--	21.0	--	2.9	--	59.0	51.9	12.1	--	--	--
2024		41.0	24.1	--	21.3	--	2.8	--	58.9	52.1	11.5	--	--	--
2025		41.2	24.2	--	21.7	--	2.6	--	58.9	52.6	10.6	--	--	--
2021	IV	39.7	23.3	23.3	20.2	20.2	3.1	3.1	58.6	50.8	13.4	30.8	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	29.5	12.5	21.3
	II	39.8	23.4	23.4	20.5	20.4	2.9	3.0	58.7	51.2	12.8	29.3	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	30.9	11.8	18.4
	IV	40.1	23.5	23.5	20.5	20.5	3.0	3.0	58.5	51.0	12.9	29.2	11.9	18.6
2023	I	40.3	23.6	23.7	20.5	20.7	3.1	3.0	58.8	51.4	12.7	29.0	12.1	19.9
	II	40.4	23.8	23.8	21.1	21.0	2.8	2.9	59.0	51.9	12.1	29.0	10.6	17.2
	III	40.6	24.1	24.0	21.3	21.1	2.9	2.9	59.1	52.0	12.0	27.8	11.0	16.5
		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	-0.3	--	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	--	38.1	--	0.6	-2.8	5.5	11.9	5.5	6.5
2021		2.9	1.7	--	7.8	--	-23.4	--	-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		1.4	2.0	--	3.0	--	-4.3	--	0.4	0.8	-0.8	--	--	--
2024		1.2	0.9	--	1.6	--	-4.2	--	-0.2	0.2	-0.6	--	--	--
2025		0.5	0.5	--	1.5	--	-7.2	--	0.0	0.5	-0.9	--	--	--
2021	IV	0.2	1.0	1.0	4.3	4.4	-16.6	-16.4	0.5	2.1	-2.8	-9.8	-2.3	-5.7
2022	I	0.3	1.7	1.7	4.6	4.5	-13.1	-14.0	0.8	2.1	-2.4	-8.8	-2.0	-4.9
	II	0.5	0.7	0.8	4.0	4.0	-17.6	-16.3	0.2	1.7	-2.6	-9.5	-2.5	-4.8
	III	0.8	0.3	0.4	2.6	2.6	-12.8	-12.6	-0.3	0.9	-1.9	-0.8	-1.7	-3.3
	IV	1.1	0.9	0.8	1.4	1.5	-2.6	-3.2	-0.1	0.2	-0.5	-1.6	-0.2	-2.2
2023	I	1.3	1.4	1.3	1.8	1.8	-1.5	-2.7	0.0	0.3	-0.5	-0.4	-0.3	-1.4
	II	1.4	1.8	1.9	2.9	2.8	-5.4	-4.3	0.3	0.7	-0.8	-0.3	-0.8	-1.7
	III	1.6	2.5	2.6	3.5	3.5	-4.2	-3.7	0.6	1.0	-0.8	-3.1	-0.7	-1.9

(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

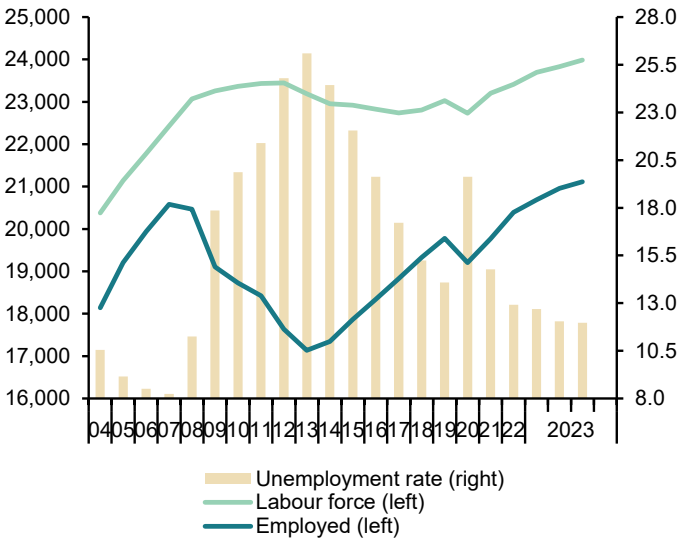


Chart 11a.2 - Unemployment rates

Percentage

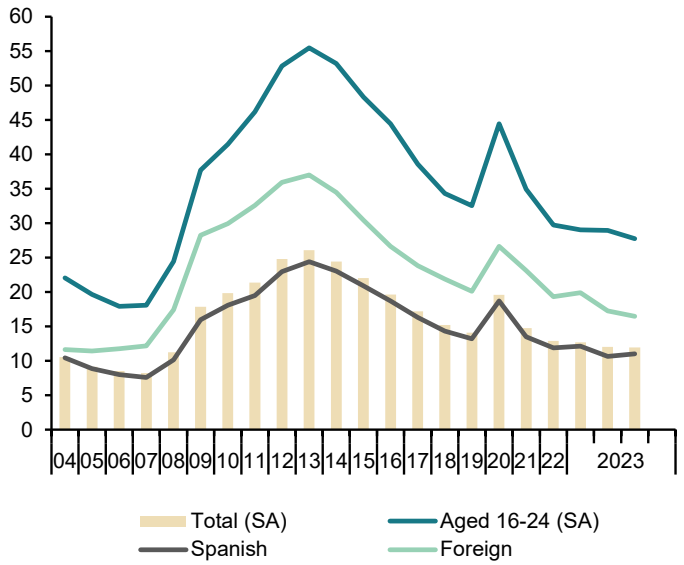


Table 11b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees							
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
		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)		0.73	2.78	1.35	16.07	17.77	3.07	14.70	17.3	3.15	18.15	2.78	13.27
2021	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
	II	0.75	2.73	1.36	16.22	17.85	3.09	14.76	17.3	3.20	18.21	2.85	13.52
	III	0.70	2.82	1.38	16.36	18.12	3.13	14.99	17.3	3.15	18.59	2.68	12.59
		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)		-6.2	0.7	1.3	3.7	3.3	-19.6	9.8	-4.9	-0.1	3.0	1.0	-0.2
2021	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
	II	-5.0	-1.8	1.6	4.2	3.2	-19.8	9.8	-5.0	1.2	3.2	1.0	-0.2
	III	-3.7	0.5	3.7	4.4	4.1	-11.0	7.9	-2.9	0.1	3.7	2.1	-0.2

(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

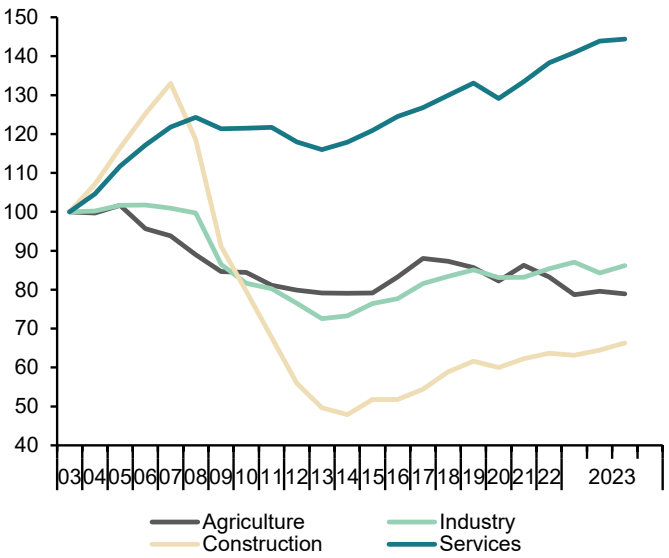


Chart 11b.2 - Temporary employment rate

Percentage over total employees

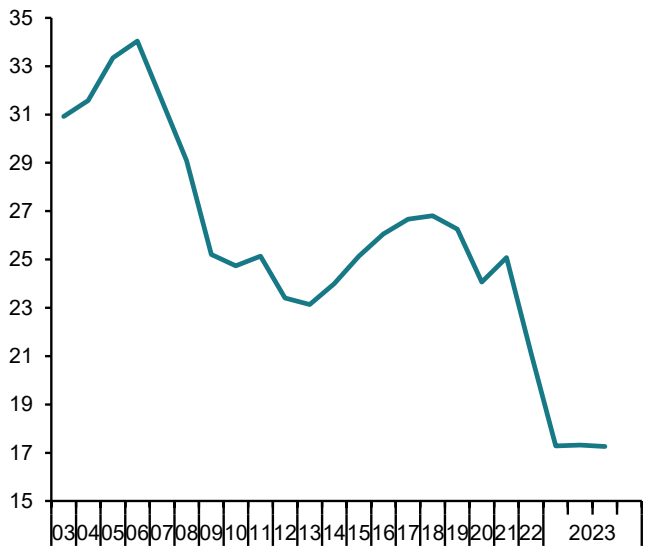


Table 12

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		112.2	108.3	111.5	108.6	107.8	124.0	121.2	107.1	123.0
2024		115.8	110.9	114.8	109.0	111.5	129.9	129.8	109.0	129.7
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		3.5	4.4	6.0	4.2	4.3	12.1	9.3	-16.3	11.1
2024		3.2	2.5	2.9	0.4	3.4	4.7	7.1	1.8	5.4
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	1.9	4.3	5.9	4.0	4.3	12.0	6.3	-24.9	10.0
	Jul	2.3	4.8	6.2	4.3	4.6	11.3	8.9	-24.3	10.4
	Aug	2.6	4.8	6.1	4.3	4.5	10.9	8.5	-21.5	10.1
	Sep	3.5	4.4	5.8	3.6	4.5	10.8	8.8	-14.0	10.1
	Oct	3.5	3.8	5.2	2.7	4.3	10.2	7.3	-10.4	9.1
	Nov	3.2	3.4	4.5	2.2	4.0	8.6	9.0	-10.0	8.6
	Dec	3.1	3.2	3.8	1.7	3.9	6.1	7.9	-6.4	6.6
2024	Jan	3.3	2.8	3.4	1.1	3.7	5.5	9.3	-2.1	6.6
	Feb	2.7	2.8	3.1	0.7	3.8	4.0	7.5	-4.1	5.0
	Mar	2.7	2.7	2.8	0.6	3.6	3.5	5.2	-0.5	4.0
	Apr	2.9	2.5	2.6	0.3	3.5	3.1	5.7	3.4	3.8
	May	3.3	2.5	2.6	0.4	3.4	3.1	6.2	6.6	4.0
	Jun	3.5	2.4	2.9	0.2	3.4	4.9	8.3	5.0	5.9
	Jul	3.4	2.4	3.1	0.3	3.4	5.6	7.0	3.9	6.0
	Aug	3.1	2.4	3.1	0.1	3.4	6.0	7.1	0.4	6.3
	Sep	2.9	2.4	3.0	0.2	3.4	5.6	7.0	-1.8	6.0
	Oct	3.1	2.4	2.9	0.3	3.3	5.2	7.6	0.5	5.9
	Nov	3.4	2.4	2.9	0.3	3.3	5.1	7.0	4.9	5.7
	Dec	3.5	2.2	2.8	0.3	3.1	5.1	7.3	6.7	5.8

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

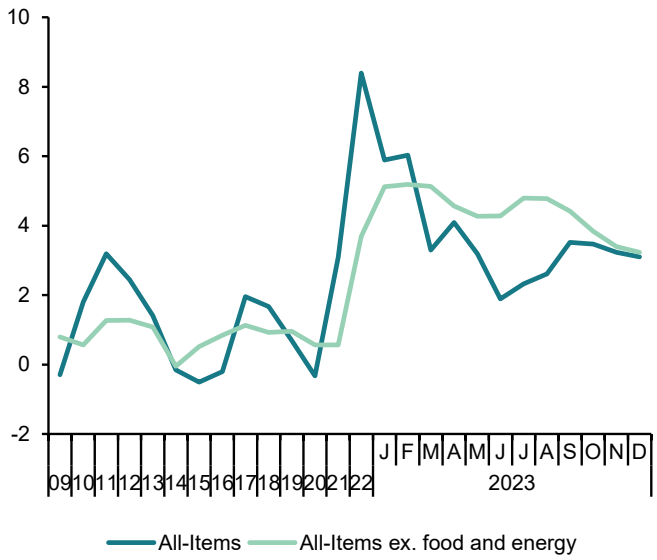


Chart 12.2 - Inflation rate (II)

Annual percentage changes

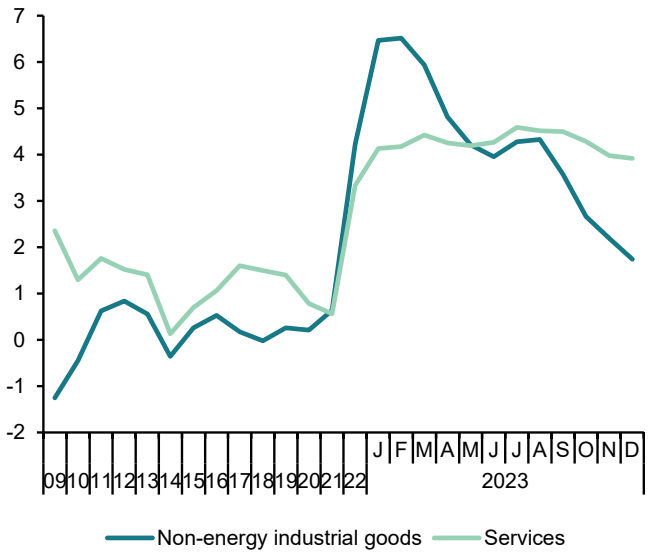


Table 13

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^2 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	156.5	--
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		105.6	99.2	103.1	85.0	78.9	52.3	145.4	142.6	154.1	173.3	--
2021		108.4	116.4	110.4	88.2	80.6	54.3	153.9	151.5	161.5	172.2	--
2022		112.9	157.7	125.4	94.7	84.7	57.0	160.4	158.4	166.5	175.6	--
2023 (b)		118.9	150.6	130.0	98.1	87.4	55.4	166.3	162.4	178.2	181.2	--
2022	I	111.6	147.1	119.6	92.7	84.3	58.3	154.2	150.3	166.2	165.2	--
	II	111.5	158.7	126.4	94.5	84.6	58.4	162.3	161.3	165.3	172.8	--
	III	112.3	165.4	127.4	96.2	84.6	53.9	155.7	152.2	166.5	178.3	--
	IV	115.9	159.6	128.3	95.4	85.1	57.4	169.4	169.9	167.9	186.2	--
2023	I	118.7	154.0	130.4	96.0	87.0	53.2	163.7	159.3	177.4	172.8	--
	II	118.8	148.6	130.2	98.0	87.2	55.5	171.7	169.5	178.6	182.6	--
	III	119.2	150.5	129.6	100.5	88.1	57.6	163.5	158.6	178.6	188.2	--
	IV (b)	--	148.9	129.7								
2023	Sep	--	152.7	129.8	--	--	--	--	--	--	--	--
	Oct	--	150.5	129.7	--	--	--	--	--	--	--	--
	Nov	--	147.4	129.6	--	--	--	--	--	--	--	--
						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	-0.2	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		1.1	-4.3	0.0	2.1	-1.1	-9.4	-2.2	-2.6	-1.0	6.5	1.9
2021		2.7	17.3	7.0	3.7	2.1	3.7	5.9	6.3	4.8	-0.6	1.5
2022		4.1	35.5	13.6	7.4	5.0	5.0	4.2	4.6	3.1	2.0	2.8
2023 (d)		6.3	-4.6	3.9	3.9	3.4	-2.6	5.7	5.1	7.3	5.3	3.5
2022	I	3.9	41.5	12.7	8.5	6.7	19.1	4.7	5.2	3.4	1.2	2.4
	II	4.3	43.9	15.4	8.0	5.5	0.2	3.8	4.3	2.2	1.1	2.5
	III	3.9	40.0	14.3	7.6	4.7	2.9	4.0	4.1	3.9	1.8	2.6
	IV	4.5	20.0	12.2	5.5	3.3	-0.1	4.2	4.7	2.8	3.7	2.8
2023	I	6.3	4.7	9.0	3.5	3.1	-8.8	6.2	6.0	6.7	4.5	3.1
	II	6.5	-6.4	3.0	3.6	3.0	-5.1	5.8	5.1	8.0	5.7	3.3
	III	6.1	-9.0	1.8	4.5	4.2	6.8	5.0	4.2	7.2	5.5	3.4
	IV (e)	--	-6.7	1.1	--	--	--	--	--	--	--	3.5
2023	Oct	--	-7.7	1.3	--	--	--	--	--	--	--	3.5
	Nov	--	-7.4	0.9	--	--	--	--	--	--	--	3.5
	Dec	--	--	--	--	--	--	--	--	--	--	3.5

(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

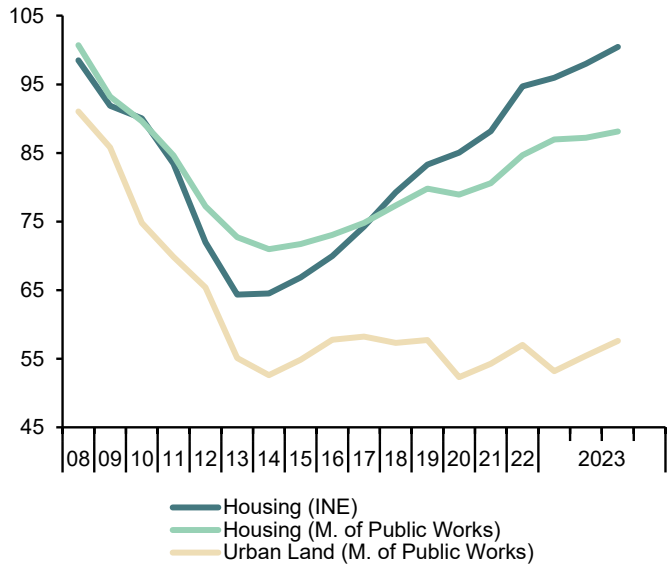


Chart 13.2 - Wage costs

Annual percent change

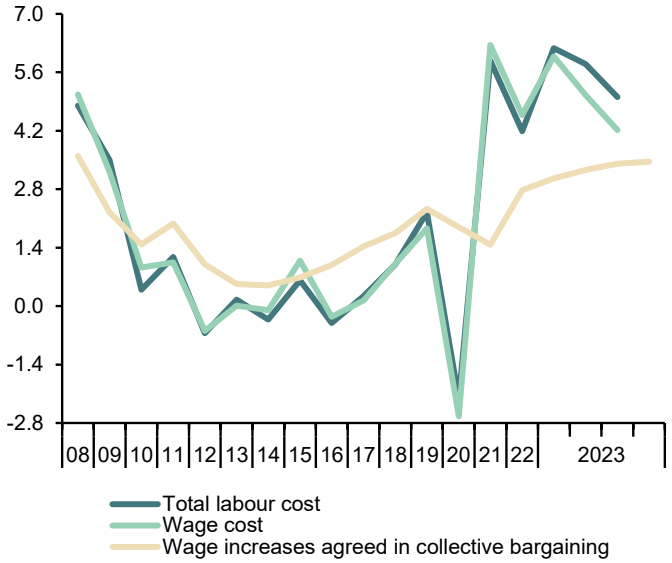


Table 14

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)		251.0	150.9	166.3	184.6	148.5	124.3	20.2	12.0	-3.4	-0.2	2.7
2021	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	154.0	173.1	188.3	152.8	123.2	22.1	12.1	-2.2	0.9	4.5
	II	251.5	150.6	167.0	188.7	143.6	131.4	20.0	12.3	-4.2	-1.1	1.8
	III	240.4	147.7	162.7	178.8	144.9	123.4	19.1	11.7	-3.7	-0.7	1.7
2023	Sep	236.7	150.8	157.0	170.6	148.5	114.9	18.4	11.9	-2.6	0.7	1.9
	Oct	236.4	154.9	152.6	184.7	159.5	115.8	18.4	11.9	-5.4	-1.7	1.3
	Nov	249.2	148.1	168.2	178.4	151.8	117.5	20.1	11.8	-2.5	0.4	3.2
		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)		-0.7	4.5	-4.9	-6.8	-0.8	-6.1	-0.7	-0.6	--	--	--
2021	IV	2.4	3.0	-0.7	9.3	3.8	5.3	2.2	2.5	-3.8	-0.8	2.0
2022	I	8.0	8.4	-0.3	10.1	13.2	-2.8	11.8	1.8	-4.7	-1.1	2.9
	II	12.5	5.8	6.4	14.6	4.5	9.7	6.8	22.8	-5.8	-1.0	2.5
	III	0.3	0.5	-0.2	0.4	5.8	-5.1	3.3	-4.3	-5.8	-1.3	3.0
	IV	-3.0	2.1	-5.1	-7.1	-0.1	-7.0	-1.0	-6.4	-4.0	-0.2	3.3
2023	I	4.6	3.8	0.8	-2.6	-1.5	-1.2	5.7	2.6	-1.8	0.7	3.7
	II	-5.7	-2.2	-3.5	0.2	-6.0	6.6	-9.5	1.3	-3.5	-0.9	1.5
	III	-4.4	-1.9	-2.6	-5.3	0.9	-6.1	-4.2	-4.7	-3.1	-0.6	1.4
2023	Sep	-4.6	5.7	-9.8	-6.0	7.8	-12.8	-8.3	1.7	--	--	--
	Oct	-0.1	2.7	-2.8	8.3	7.4	0.8	-0.3	0.1	--	--	--
	Nov	5.4	-4.4	10.2	-3.5	-4.8	1.5	9.5	-0.9	--	--	--

(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

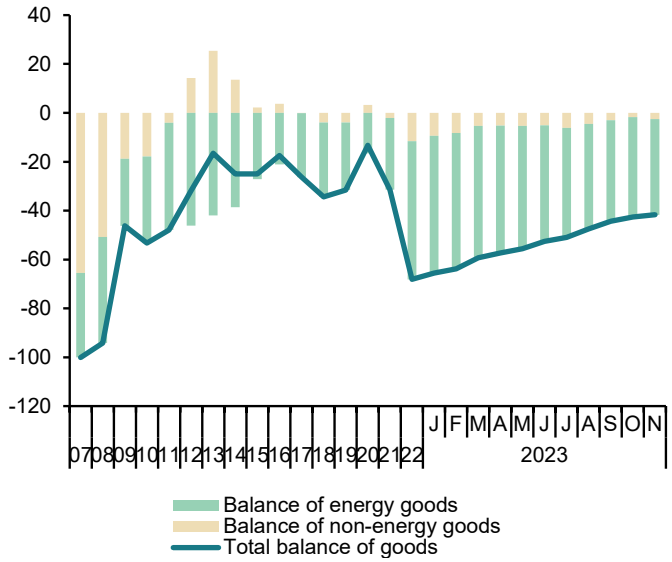


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account. excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Primary Income	Secondary Income			Total	Direct investment	Porfolio 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		6.92	-8.67	24.77	2.87	-12.05	5.15	12.06	89.47	15.88	51.16	29.00	-6.58	-81.83	-4.42
2021		9.30	-23.80	35.56	9.50	-11.95	10.83	20.13	7.43	-17.02	2.53	20.06	1.85	16.12	3.42
2022		8.24	-59.19	75.50	6.40	-14.47	12.51	20.75	-4.15	-0.70	33.78	-39.47	2.24	30.27	5.38
2023 (a)		28.96	-24.20	71.84	-8.43	-10.25	8.31	37.27	-77.68	-4.41	-7.72	-59.97	-5.59	113.20	-1.76
2021	IV	3.14	-12.64	13.35	4.67	-2.23	5.04	8.18	32.27	-9.01	18.91	26.41	-4.04	-23.91	0.18
2022	I	-3.63	-14.36	11.71	2.23	-3.21	1.15	-2.48	15.85	0.45	17.99	-3.99	1.40	-11.10	7.24
	II	2.26	-14.74	20.49	0.73	-4.22	2.47	4.73	-13.12	1.29	19.12	-32.09	-1.43	24.03	6.17
	III	3.33	-18.90	25.13	1.24	-4.14	3.05	6.38	-26.99	-5.30	-11.68	-12.89	2.89	29.12	-4.26
	IV	6.28	-11.19	18.18	2.20	-2.91	5.83	12.12	20.11	2.86	8.36	9.50	-0.61	-11.77	-3.78
2023	I	10.25	-4.26	16.93	-0.58	-1.83	2.80	13.05	-48.48	2.69	21.59	-70.22	-2.55	56.31	-5.22
	II	8.30	-7.91	24.80	-4.83	-3.76	2.26	10.55	-18.30	-11.36	-14.75	9.10	-1.28	33.41	4.55
	III	10.41	-12.03	30.12	-3.02	-4.66	3.26	13.67	-10.90	4.26	-14.56	1.16	-1.76	23.48	-1.09
			Goods and Services		Primary and Secondary Income										
2023	Aug	3.91	6.40		-2.49		0.70	4.61	-3.20	-1.39	-4.37	2.96	-0.40	4.26	-3.55
	Sep	2.97	5.59		-2.62		1.17	4.14	-12.94	0.25	-12.64	0.38	-0.94	14.71	-2.37
	Oct	3.77	5.04		-1.27		1.47	5.24	-12.43	1.14	-5.69	-8.65	0.77	21.68	4.01
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	0.3	-1.1	0.5	1.1	8.0	1.4	4.6	2.6	-0.6	-7.3	-0.4
2021		0.8	-1.9	2.9	0.8	-1.0	0.9	1.6	0.6	-1.4	0.2	1.6	0.2	1.3	0.3
2022		0.6	-4.4	5.6	0.5	-1.1	0.9	1.5	-0.3	-0.1	2.5	-2.9	0.2	2.2	0.4
2023 (a)		2.7	-2.2	6.7	-0.8	-1.0	0.8	3.5	-7.2	-0.4	-0.7	-5.6	-0.5	10.5	-0.2
2021	IV	0.9	-3.8	4.0	1.4	-0.7	1.5	2.5	9.7	-2.7	5.7	7.9	-1.2	-7.2	0.1
2022	I	-1.2	-4.6	3.7	0.7	-1.0	0.4	-0.8	5.0	0.1	5.7	-1.3	0.4	-3.5	2.3
	II	0.7	-4.4	6.1	0.2	-1.3	0.7	1.4	-3.9	0.4	5.7	-9.5	-0.4	7.1	1.8
	III	1.0	-5.7	7.5	0.4	-1.2	0.9	1.9	-8.1	-1.6	-3.5	-3.9	0.9	8.7	-1.3
	IV	1.7	-3.1	5.1	0.6	-0.8	1.6	3.4	5.6	0.8	2.3	2.6	-0.2	-3.3	-1.0
2023	I	2.9	-1.2	4.8	-0.2	-0.5	0.8	3.7	-13.9	0.8	6.2	-20.1	-0.7	16.1	-1.5
	II	2.3	-2.2	6.8	-1.3	-1.0	0.6	2.9	-5.0	-3.1	-4.0	2.5	-0.4	9.1	1.2
	III	2.9	-3.3	8.4	-0.8	-1.3	0.9	3.8	-3.0	1.2	-4.0	0.3	-0.5	6.5	-0.3

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

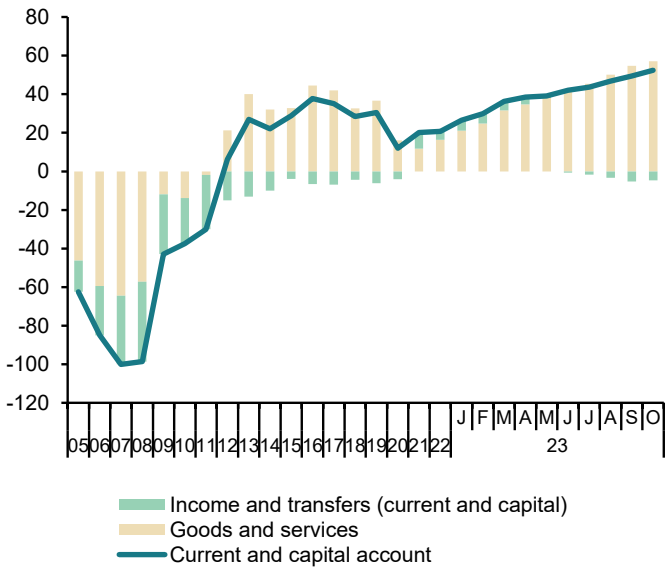


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

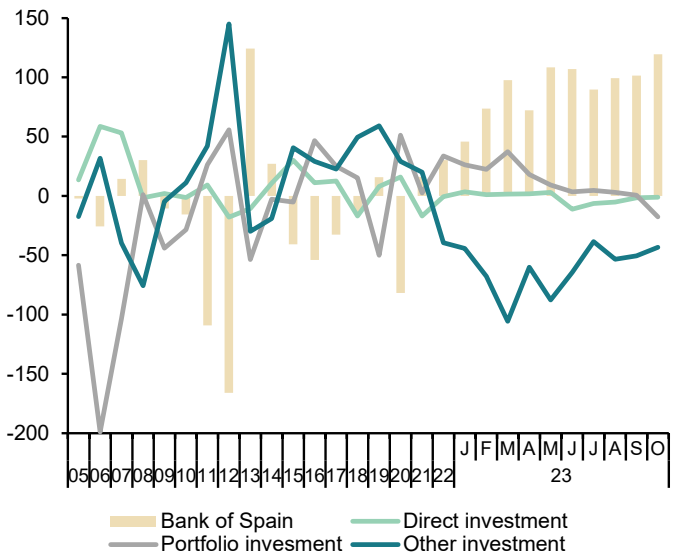


Table 16

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
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			2015=100			2015=100			1999 I =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	91.8	104.3	104.3	104.8	99.5	103.4	103.7	99.8	109.0
2020		99.5	85.2	116.8	103.9	105.1	98.9	99.8	101.2	98.6	108.4
2021		101.3	89.5	113.3	107.0	107.8	99.3	114.6	111.0	106.2	108.9
2022		100.1	91.6	109.2	115.9	116.8	99.3	148.5	140.7	105.6	108.0
2023 (b)		--	--	--	119.9	123.2	97.3	144.1	138.2	104.3	106.9
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
	II	--	--	--	119.7	123.3	97.1	142.7	136.8	104.3	106.8
	III	--	--	--	120.7	124.0	97.4	143.8	136.0	105.8	107.0
	IV	--	--	--	121.3	124.2	97.7	--	--	--	--
2023	Oct	--	--	--	121.7	124.6	97.7	144.0	136.7	105.3	107.3
	Nov	--	--	--	121.1	123.9	97.7	141.9	136.4	104.0	107.5
	Dec	--	--	--	121.1	124.1	97.6	--	--	--	--
		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		-1.5	-1.7	0.2	0.8	1.2	-0.4	-0.3	0.4	-0.6	-1.3
2020		3.9	-7.2	12.0	-0.3	0.3	-0.6	-3.6	-2.5	-0.8	-0.6
2021		1.8	5.0	-3.0	3.0	2.6	0.4	14.8	9.7	5.1	0.4
2022		-1.2	2.4	-3.6	8.3	8.4	-0.1	29.7	26.8	2.9	-0.8
2023 (c)		--	--	--	3.4	5.4	-2.0	-3.0	-1.4	-1.6	-1.1
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
	II	--	--	--	2.8	6.2	-3.4	-4.7	-0.9	-3.8	-2.2
	III	--	--	--	2.6	5.0	-2.4	-6.9	-7.9	1.0	-0.7
	IV	--	--	--	3.3	2.7	0.6	--	--	--	--
2023	Oct	--	--	--	3.5	2.9	0.6	-5.6	-7.2	1.6	1.6
	Nov	--	--	--	3.3	2.4	0.9	-5.3	-6.4	1.1	1.7
	Dec	--	--	--	3.3	2.9	0.4	--	--	--	--

(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

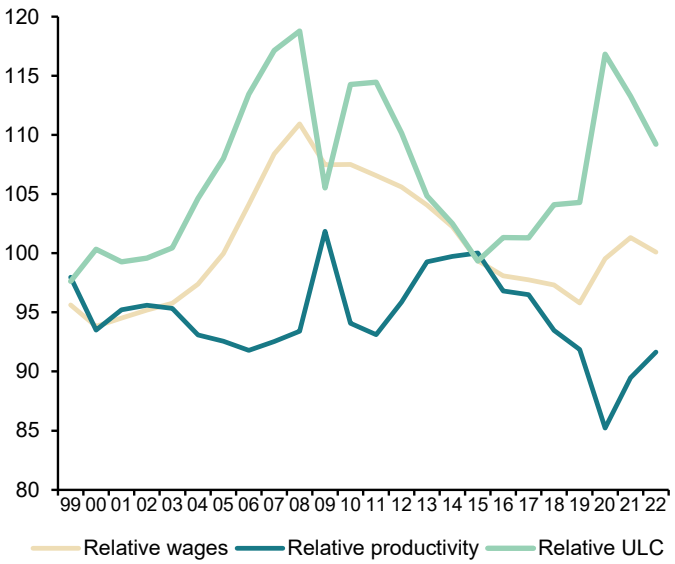


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

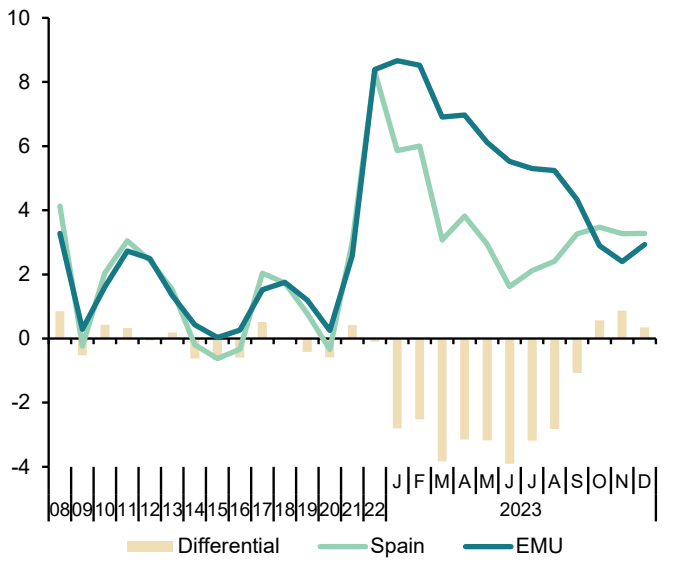


Table 17a

Imbalances: International comparison (I)

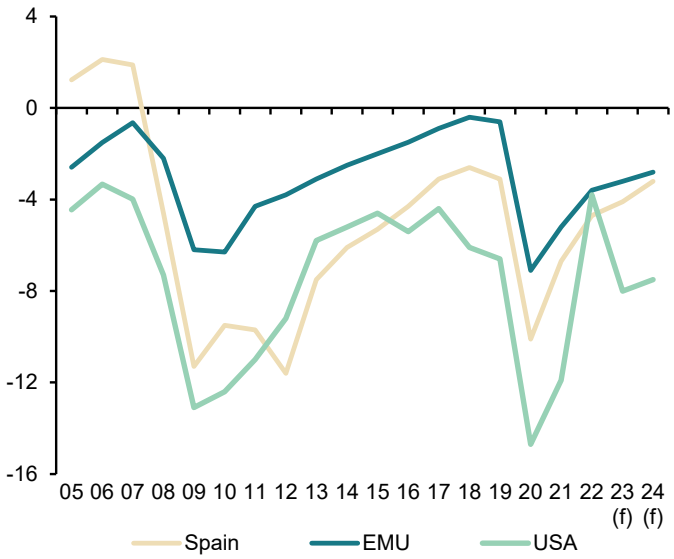
(In yellow: European Commission Forecasts)

	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	-582.0	-1,896.6	569.5	7,471.6	12,311.3	-43.7	44.4	-383.1
2010	-102.2	-601.7	-1,863.1	649.2	8,221.0	14,025.2	-39.2	50.9	-439.8
2011	-103.6	-419.5	-1,709.1	743.0	8,684.3	15,222.9	-29.0	76.8	-460.3
2012	-119.1	-376.6	-1,493.3	927.8	9,181.1	16,432.7	0.9	211.0	-424.0
2013	-76.8	-307.8	-977.3	1,025.7	9,511.0	17,352.0	20.8	271.0	-351.2
2014	-63.1	-255.4	-910.4	1,084.8	9,755.4	18,141.4	17.5	315.2	-375.1
2015	-57.2	-210.7	-837.2	1,113.7	9,876.4	18,922.2	21.8	353.1	-423.1
2016	-47.9	-159.4	-1,010.1	1,145.1	10,052.0	19,976.8	35.4	384.9	-401.4
2017	-36.2	-104.2	-861.5	1,183.4	10,158.2	20,492.7	32.2	402.0	-378.0
2018	-31.2	-49.8	-1,251.1	1,208.9	10,259.6	21,974.1	22.6	409.0	-441.2
2019	-38.1	-77.1	-1,423.5	1,223.4	10,350.1	23,201.4	26.2	352.8	-448.4
2020	-113.2	-812.3	-3,129.6	1,345.8	11,417.4	27,747.8	6.9	266.1	-569.7
2021	-82.3	-650.7	-2,812.8	1,428.1	12,042.0	29,617.2	9.3	454.7	-847.8
2022	-63.7	-486.5	-985.3	1,502.8	12,482.5	31,419.7	8.2	129.9	-985.8
2023	-58.8	-458.9	-2,186.2	1,559.6	12,988.5	33,495.7	27.8	361.3	-796.6
2024	-48.1	-425.7	-2,129.5	1,623.4	13,444.9	35,566.7	26.0	394.9	-783.2
				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	85.8	93.2	-3.7	0.5	-2.9
2011	-9.7	-4.3	-11.0	69.9	88.2	97.6	-2.7	0.8	-3.0
2012	-11.6	-3.8	-9.2	90.0	92.9	101.1	0.1	2.1	-2.6
2013	-7.5	-3.1	-5.8	100.5	95.3	102.8	2.0	2.7	-2.1
2014	-6.1	-2.5	-5.2	105.1	95.5	103.0	1.7	3.1	-2.1
2015	-5.3	-2.0	-4.6	103.3	93.4	103.4	2.0	3.3	-2.3
2016	-4.3	-1.5	-5.4	102.7	92.5	106.2	3.2	3.5	-2.1
2017	-3.1	-0.9	-4.4	101.8	90.1	104.5	2.8	3.6	-1.9
2018	-2.6	-0.4	-6.1	100.4	88.0	106.4	1.9	3.5	-2.1
2019	-3.1	-0.6	-6.6	98.2	85.9	107.8	2.1	2.9	-2.1
2020	-10.1	-7.1	-14.7	120.3	99.1	130.1	0.6	2.3	-2.7
2021	-6.7	-5.2	-11.9	116.8	96.5	125.5	0.8	3.6	-3.6
2022	-4.7	-3.6	-3.8	111.6	92.5	122.0	0.6	1.0	-3.8
2023	-4.1	-3.2	-8.0	107.5	90.4	122.5	1.9	2.5	-2.9
2024	-3.2	-2.8	-7.5	106.5	89.7	125.0	1.7	2.6	-2.8

Source: European Commission Forecasts, Autumn 2023.

Chart 17a.1 - Government deficit

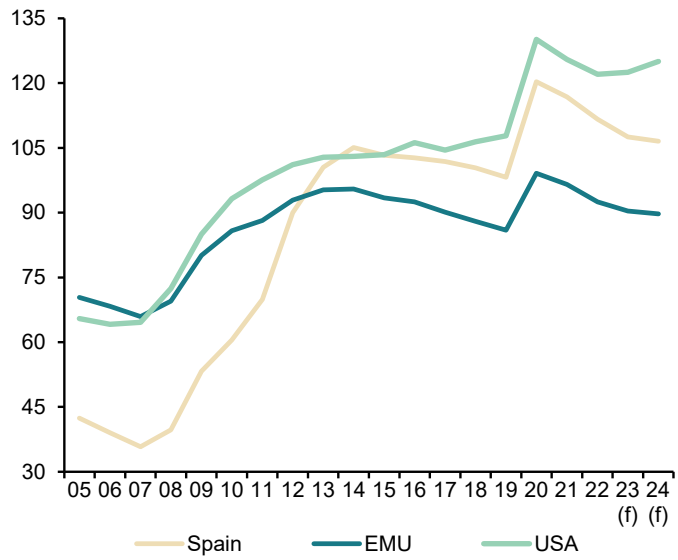
Percentage of GDP



(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					
2008	916.7	5,784.4	14,197.1	1,273.7	7,961.3	11,012.2
2009	908.9	5,890.7	14,033.9	1,274.7	8,034.0	10,500.9
2010	905.2	6,031.9	13,801.4	1,274.3	8,134.2	10,369.6
2011	877.9	6,112.3	13,689.2	1,230.1	8,360.5	10,639.8
2012	840.7	6,104.1	13,578.6	1,104.3	8,487.4	11,220.2
2013	793.4	6,064.0	13,802.7	1,024.9	8,394.5	11,789.8
2014	757.5	6,070.5	13,906.9	971.3	8,490.4	12,612.4
2015	733.1	6,134.1	14,129.8	945.6	8,907.0	13,467.5
2016	718.3	6,238.1	14,549.7	927.4	9,059.5	14,137.9
2017	710.8	6,400.5	15,103.4	907.0	9,115.5	15,148.1
2018	709.4	6,589.1	15,576.1	893.2	9,379.1	16,135.1
2019	707.6	6,821.9	16,157.5	898.5	9,654.6	16,829.2
2020	700.4	7,007.6	16,703.0	954.3	10,104.1	18,410.3
2021	704.2	7,306.6	18,308.3	978.9	10,559.8	19,530.3
2022	703.6	7,563.3	19,383.6	958.9	10,819.3	20,768.8
	Percentage of GDP					
2008	82.6	59.8	96.1	114.8	82.3	74.6
2009	85.0	63.2	96.9	119.2	86.2	72.5
2010	84.4	63.0	91.7	118.8	84.9	68.9
2011	82.5	62.1	87.8	115.6	84.9	68.2
2012	81.5	61.8	83.5	107.1	85.9	69.0
2013	77.7	60.8	81.8	100.5	84.1	69.8
2014	73.4	59.4	79.0	94.1	83.2	71.6
2015	68.0	58.0	77.2	87.7	84.3	73.6
2016	64.5	57.4	77.4	83.2	83.4	75.2
2017	61.1	56.8	77.0	78.0	80.9	77.2
2018	58.9	56.5	75.4	74.2	80.5	78.1
2019	56.8	56.6	75.1	72.1	80.2	78.2
2020	62.6	60.8	78.3	85.2	87.8	86.3
2021	57.6	58.6	77.6	80.0	84.6	82.8
2022	52.3	56.1	75.3	71.2	80.2	80.7

(a) Loans and debt securities, consolidated.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

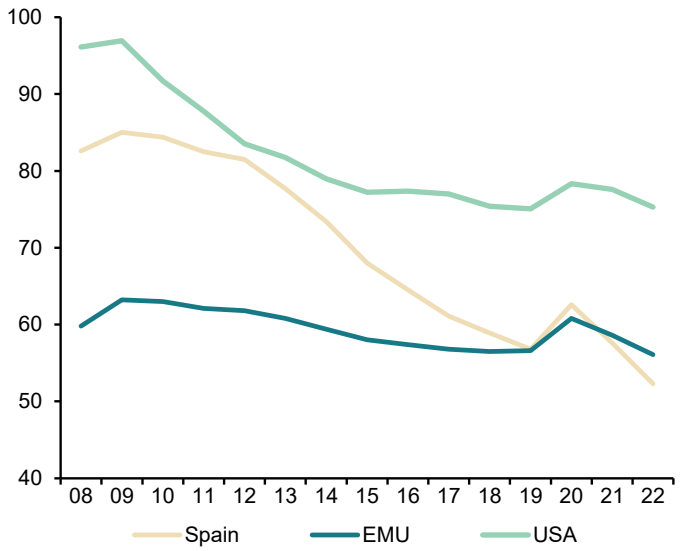
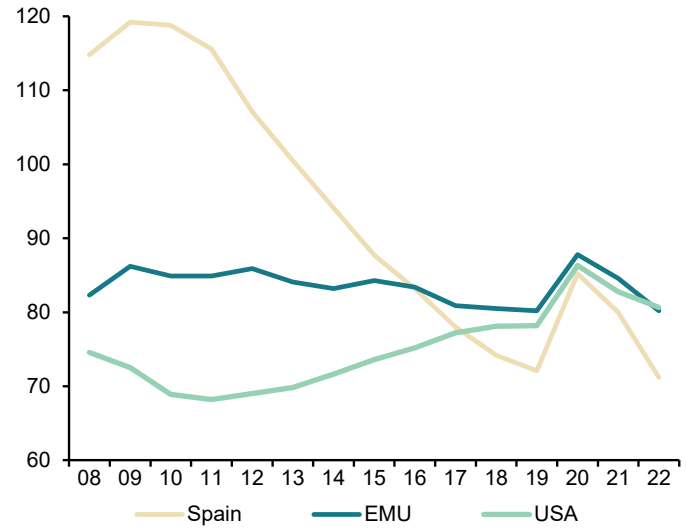


Chart 17b.2 - Non-financial corporations consolidated debt

Percentage of GDP



50 Financial System Indicators

Updated: January 15th, 2024

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.5	October 2023
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.9	October 2023
Doubtful loans (monthly % var.)	0.5	October 2023
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	457,994	December 2023
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	27,860	December 2023
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	297	December 2023
"Operating expenses/gross operating income" ratio (%)	40.72	September 2023
"Customer deposits/employees" ratio (thousand euros)	12,951.36	September 2023
"Customer deposits/branches" ratio (thousand euros)	117,053.21	September 2023
"Branches/institutions" ratio	93.17	September 2023

A. Money and Interest Rates

Indicator	Source	Average 2001-2020	2021	2022	2023 December	2024 January 15	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.5	6.9	4.1	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.3	-0.570	2.162	3.936	3.928	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	1.6	-0.505	0.992	3.679	3.594	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.2	0.5	3.2	2.8	3.1	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.6	-	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": In their latest meeting, the ECB decided to once again keep interest rates at 4.5%, continuing a pause in their monetary policy after ten consecutive increases since July 2022. Although the central bank itself calls for caution, market expectations are that there will be no further hikes. This is being reflected in interbank rates. In the first half of January, the 12-month Euribor (main reference for mortgages) has dropped to 3.594% from December's 3.679%, while the 3-month reference rate decreased from 3.936% in December to 3.928% in mid-January. The yield on the 10-year government bond has increased from 2.8% in December to 3.1% in the first half of January.

B. Financial Markets

Indicator	Source	Average 2001-2020	2021	2022	2023 October	2023 November	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	35.7	27.9	27.8	18.29	20.78	(Traded amount/outstanding balance) x100 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	13.88	13.09	(Traded amount/outstanding balance) x100 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	0.13	0.78	(Traded amount/outstanding balance) x100 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	0.33	0.20	(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	3.59	3.58	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	4.0	3.6	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	-4.2	10.3	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	30.1	-8.3	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	896.43	993.62 (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	9,017.3	10,076.9 (a)	Base dec1989=3000
16. Nasdaq Index	Nasdaq	3,924.5	15,644.9	10,466.4	12,745.73	14,972.76 (a)	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	28.2	32.9 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial Markets (continued)

Indicator	Source	Average 2001-2020	2021	2022	2023 October	2023 November	Definition and calculation
18. Short-term private debt. Outstanding amounts (% chg.)	BE	0.79	2.4	8.01	4.5	-10.1	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	1.4	0.8	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	-82.7	490.7	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	14.8	21.1	35.8	500	-77.7	IBEX-35 shares concluded transactions

(a) Last data published: January 15th, 2024.

Comment on "Financial Markets": In the first half of January, Spanish stock market indices have shown greater volatility than at the end of last year. Numerous uncertainties, compounded by events in the Red Sea, may be weighing in. The IBEX-35 has dropped to 10,076.9 points. The General Index of the Madrid Stock Exchange ended at 993.62 points. Meanwhile, in November (the latest data available), there was an increase in the ratio of simple cash transactions with Treasury bills (up to 20.78%) but a slight decrease in the ratio of simple transactions with state obligations (down to 13.09%). Transactions with IBEX-35 stock futures increased by 490.7% while financial options on this same index decreased by 77.7% compared to the previous month.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2020	2021	2022	2023 Q2	2023 Q3	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-0.9	1.9	1.5	3.0	3.4	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.1	4.4	0.9	1.7	2.5	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	275.7	319.9	278.1	264.1	256.1	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	58.4	53.0	49.9	48.0	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	2.7	2.8	3.1	-0.6	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.0	0.8	0.4	1.1	-2.2	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": In the third quarter of 2023, financial savings across the economy increased to 3.4% of GDP. In the household sector, the financial savings rate was 2.5% of GDP. It is also observed that the financial debt of households has decreased to 48% of GDP.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2020	2021	2022	2023 September	2023 October	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	4.9	0.2	-0.04	-0.01	-0.5	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	0.7	-0.9	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	-0.2	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	-0.2	-0.1	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	6.8	7.0	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	-0.3	0.5	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	-2.0	18.9	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	-0.8	0.4	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": In October, the latest available data, there was a slight decrease in credit to the private sector of 0.5%. Deposits fell by 0.9%. Fixed-income securities reduced their weight in the balance by 0.2%, while stocks and shares decreased by 0.1%. Additionally, there was an increase in the volume of non-performing loans of 0.5% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2020	2021	2022	2023 June	2023 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	172	110	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	84	80	78	78	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	226,645	164,101	164,101	158,317 (a)	158,317 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	36,236	19,015	17,648	17,517	17,458	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	451,256	2,206,332	1,638,831	1,031,949	457,994 (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	90,599	289,545	192,970	88,092	27,860 (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	23,572	16	5	417	297 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2022.

(b) Last data published: December 31st, 2023.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In December 2023, the net appeal to the Eurosystem by Spanish financial institutions was 27,860 million euros.

MEMO ITEM: Since January 2015, the European Central Bank has also been reporting the amount of various asset purchase programs. In December 2023, their value in Spain was 606,510 billion euros and 4.7 trillion euros in the entire Eurozone.

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

Indicator	Source	Average 2000-2020	2021	2022	2023 Q2	2023 Q3	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	47.24	54.18	46.99	40.72	42.20	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	4,604.61	12,137.18	12,610.21	12,951.36	12,899.22	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	31,099.47	111,819.77	117,256.85	117,053.21	116,975.59	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2020	2021	2022	2023 Q2	2023 Q3	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	178.52	98.01	92.88	93.17	92.86	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.11	9.2	9.3	9.0	9.0	Branch size indicator
48. "Equity capital" (monthly average % var.)	Bank of Spain	-0.07	0.6	1.3	0.7	0.7	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.41	0.5	0.7	1.0	0.9	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	5.25	6.9	9.8	12.23	11.77	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2023Q3. there was a relative decrease 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)
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	80.4	85.7	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 (%)
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	7.6	6.6	1.70	36.7	34.6	
2023	19,351■	2.45●								
Sources	LFS	LFS, EPC	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 (%)
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
2022	31.6	1.12	1.35	50.1	11.7	67.0
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-September.*

● *Number of households data from the LFS (January to September) and population data from the EPC (as of 1 January 2022).*

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 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)
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	55,176	4.7
2021	16.4	5.8	32.3	46.7	1,628,472	690,481	773,689	1,333,567	266,902	59,773	4.9
2022	16.1	5.8	32.6	49.2	1,617,412●	687,511●	803,611●	1,353,347●	276,518●		
2023■	16.1	6.2	32.9	50.3							
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-September.*

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood			Social Security		
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
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	1,000	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	796,112■	6,367,671	1,375	945,963	1,119	2,351,851	852	875,123■	271,848■	176,022■	9,603■
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMSERSO	IMSERSO	IMSERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

IMSERSO: Instituto de Mayores y Servicios Sociales.

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

■ *Data refer to January-November.*

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 asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	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
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			121	75
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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