ECB

Situation and outlook for the Spanish economy

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Exports are behind the economy's strong performance, with a particularly important contribution from services

Based on data available up to the first quarter of the year, sales to the rest of the world are now almost 13% above the levels reached just prior to the start of the pandemic. Firstly, consumption by non-residents in Spain continues to contribute positively to the advance of the economy: according to data on card purchases by foreigners at BBVA point-of-sale terminals; in the second quarter of the year, spending levels could reach 60% higher than those observed in the same period of 2019. The main beneficiaries are beach destinations and cities that used to have an intense urban tourism traffic. In any case, the contribution to the growth of non-tourist services exports has been more important. These have increased by 30% since the end of 2019 and now account for almost 9% of GDP. Two thirds are destined for Europe and 20% for the Americas, with business services, information technology and telecommunications, and transportation being the most important. Exports of goods are 5.5% above the pre-pandemic level, with a balanced contribution to growth by type of good (consumer, intermediate or capital).

Better inertia during the end of 2022 and stronger-than-expected dynamism in 2Q23 account for half of the improvement in the growth forecast for 2023. On the one hand, the INE revised GDP for the second half of last year upward by almost half a percentage point. On the other hand, it is estimated that the economy could grow by 0.7% in the second quarter of 2023, four tenths of a percentage point more than forecast three months ago. Employment and prices also show a more positive performance than expected in March: companies are creating jobs at a pace that would add almost 500,000 jobs over the year, double what was forecast in March. Likewise, from February through May, inflation has shown data consistent with a decline that can be sustained over time, reaching averages of 3.4% in 2023 and 3.2% in 2024.

The signing of the 5th Employment and Collective Bargaining Agreement (AENC for its Spanish acronym), and the decline in inflation, will increase certainty about the performance of incomes and their purchasing power. For one thing, wage increases (4% in 2023, 3% in 2024 and 2025) do not represent a deviation from what had been observed throughout the year: at the end of last year, remuneration per employee was increasing at 4%, while BBVA Research expects it to increase by 3.4% in 2023 and 5.0% in 2024. Furthermore, labor productivity is expected to improve in 2023 and 2024 and its cumulative growth is expected to outpace that of real wages. Therefore, in the most likely scenario, the agreement is expected to be consistent with maintaining business competitiveness, with companies continuing to create jobs and with inflation converging to levels around 2% in 2024. This security may help to encourage investment and release some of the savings held by households. In any case, it will be essential to translate these guidelines into sectoral and company agreements. Social stability and economic growth depend on collective bargaining agreements taking into account the situation of the companies, so that those that have more room to improve the conditions of the agreement, do so, while in those where the situation continues to be delicate, decisions consistent with the preservation of employment are adopted.

- In particular, it is noted that the bidding and awarding of these programs has reached a cruising speed of around 10 billion every twelve months.

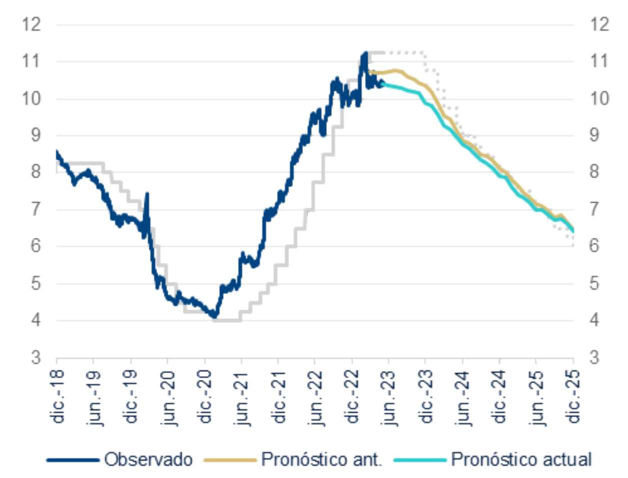
- According to BBVA Research estimates, the abnormal lack of rainfall during the first half of 2023 would have reduced quarterly agricultural GVA growth by 2.2 pp each quarter. If these conditions continue over the next few months, the effects could be greater.
- According to INEGI figures, in 1Q23, GDP grew 1.0% q/q, driven by the tertiary sector (1.5% q/q) and the resilience shown by industry (0.6% q/q).
- Banxico to maintain an extended pause before initiating a downward cycle in 4Q23.

The uncertainty surrounding economic policy increases in the short term with the call for a general election, but shortens over time. This takes the private sector without imbalances, with debt levels even below those of the EMU as a whole. As for the public sector, it is one of the countries to which more NGEU resources have been transferred, having met milestones such as the labor or pension reforms. The nearness of the general elections with respect to their announcement should reduce the period of uncertainty that would have arisen if the deadlines had expired. Although the budgetary processes toward 2024 could be affected by the lack of necessary alignments such as deficit targets, spending caps, etc., the formation of a new central government during the second half of the year could clarify the outlook.

As of April 2023, the overall consolidated result reached -3.6% of GDP, deteriorating with respect to 2022, due to a drop in revenues and an increase in primary expenditure (salaries and pensions, transfers, etc.).

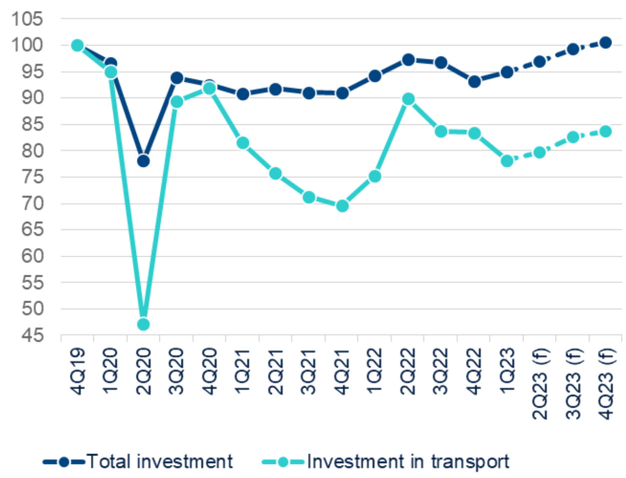
We assume that the BCU will maintain its exchange rate policy of not intervening beyond market operations aimed at containing volatility. In this scenario we expect a slight acceleration of the exchange rate in the remainder of the year due to the cut in exports as a result of the drought, so we expect the exchange rate to reach UYU/USD 39.7 by Dec-23 and 42.3 by Dec-24.

Figure 1. **IMSS-AFFILIATED JOBS**
(% ANNUAL CHANGE EOP, '000s)



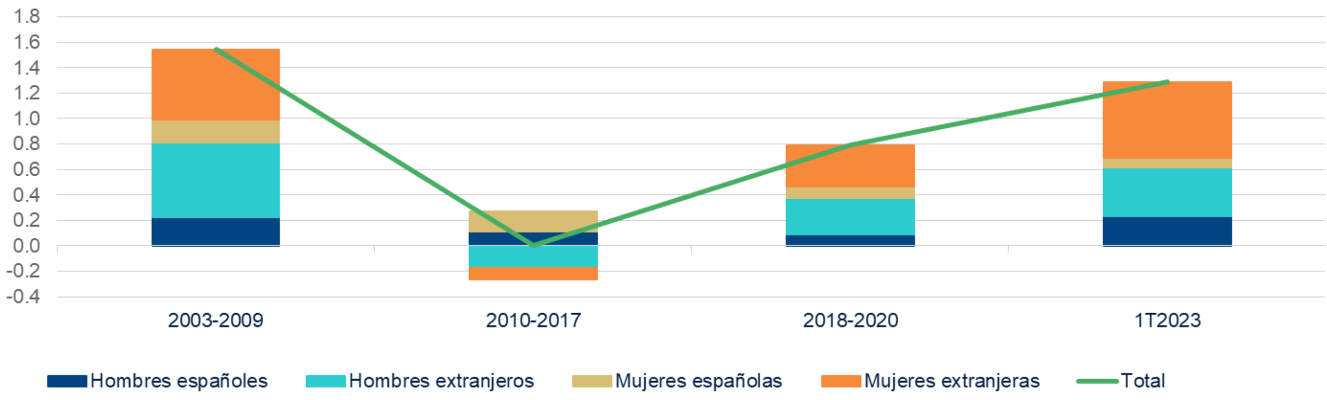
The solid (observed) and dotted (forecast) gray line indicates Banxico's target rate. Source: BBVA Research / Bloomberg.

Figure 2. **LOREM IPSUM CLAUDITATIS EST** (%)



Source: Vero eros et accumsan

Figure 3. **EXCHANGE RATE** (MXN/USD)



Source: BBVA Research, Banxico.

The current account closed with a deficit of 3.2% of GDP in 2022 (USD 2.268 billion) due to the impact of the drought and a lackluster tourism season. This year, the tourism season was better than in 2022 (and than expected), which could offset part of the drop in exports of goods that we estimate at 10% y/y for the whole of 2023. Imports, which have been experiencing a slowdown in the first months of the year, may be affected by the impact of the higher energy purchases required due to the low rainfall caused by the drought. We therefore expect a current account deficit of 3.3% of GDP this year, improving slightly to -2.9% of GDP in 2024 once the effects of the drought fully dissipate.

Table 1. **MACROECONOMIC FORECASTS**

		Variation 2016 / 2015	
(€ Mill.)	2016	2024f	2025f
GDP (% y/y)	17,059	3.9	14.9
Exchange rate (vs. USD, EOP)	24,653	4.1	14.2
Overall fiscal balance (% GDP)	11,862	4.0	1.9
Public consumption (% y/y)	**3,475**	**31.5**	**6.2**

Source: BBVA Research, INEGI, Banxico

Table 2. **10-YEAR GOVERNMENT BOND YIELD** (ANNUAL AVERAGE, %)

	2017	2018	2019	2020	2021	2022	2023	2024
United States	2.33	2.91	2.14	0.90	1.44	2.95	3.59	3.53
Germany	0.37	0.46	-0.21	-0.48	-0.31	1.18	2.57	2.72

Forecast closing date: 02 May 2023
Source: BBVA Research and IMF.

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