Spain Economic Outlook

December 2022

Creating Opportunities

Main messages

Economic activity

Economic activity is expected to lose steam over 2023. Global growth is forecasted to reach 2.3% in 2023 -an unusually low level- after having grown 6.3% in 2021 and around 3.3% in 2022. Aggressive monetary tightening coupled with still significant price pressures, amid a war in Ukraine and increasing hurdles to free-trade, will likely weaken labor markets and private consumption, which have been holding up relatively well so far. Uncertainty is high and risks are tilted to the downside: a sharper-than-expected activity deceleration could pave the way for a global recession.

Inflation

The ongoing easing of commodity prices and bottlenecks reinforces the prospects that inflation will slow down ahead, favored by positive base effects. In the US, actually, inflation is already falling. Although, in the Eurozone, price pressures continue to build, inflation is still expected to soon peak, assuming that expectations and second-round effects remain under control. Still, inflation will remain well above targets, at least throughout 2023. Risks of more persistent price increases remain alive.

Monetary policy

The interest-rate hiking cycle is likely to come to an end in early 2023, both in the US and the EZ. Policy rates are forecast to converge to around 5% in the former and 2.75% in the latter. However, there will be scarce room for monetary easing till the end of 2023. Moreover, a quantitative tightening is set to remain in place in the US and to be launched next year in the EZ.

Financial volatility

Declining global liquidity, high interest rates and dollar strength could continue spurring volatility and significant corrections in financial markets. Stress episodes, such as those recently observed in the UK and in crypto markets, and even a financial crisis could emerge ahead, specially if inflation and interest rates end up being higher than expected.

Key points. Spain

GDP

The forecasts for GDP growth in 2022 and 2023 are revised moderately upward to 4.6% and 1.2%, respectively. The economy is holding up better than expected and the likelihood of a recession is now lower. Private consumption and exports continue to drive production.

The economy could shrink

It cannot be ruled out that GDP will shrink over the next few months. The eurozone's entry into recession and the fade-out of the recovery in tourism will make a negative contribution to external demand growth in 2023 and 2024. Household spending will be affected by rising prices, increased uncertainty, slower employment and higher interest rates.

There are no imbalances across sectors

Activity will gain traction as NGEU funds are disbursed and uncertainties affecting households and businesses melt away, boosting GDP growth in 2024 to 3.4%. The fall in inflation will continue, and there appear to be no problems with gas supply. Businesses and households are better prepared to face a more volatile environment. There are no imbalances across economic sectors.

Risks

The factors that could worsen the scenario are still numerous, however. Geopolitical tension could spread. Rising cases of COVID in China and an eventual return to full lockdown policies would jeopardize the availability of inputs. The lack of an 'income pact' would lead to inflation remaining high. The ECB could overreact. It is necessary to provide certainty as to the tax burden and the sustainability of government finances. The lack of suitably trained human capital is holding back the growth of businesses.

BBVA Research

01

Global Economic Outlook December 2022

Creating Opportunities

Economic activity has weakened throughout 2022, amid high inflation, sharp monetary tightening and financial volatility, while still exhibiting resilience

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

EASING BUT STILL RESILIENT GROWTH

Easing growth on monetary tightening, price pressures, effects of the war and covid in China.

But activity has shown resilience: robust labor markets, (declining) reopening effects.

SHARP MONETARY TIGHTENING

Fed: has started a quantitative tightening and sharply hiked interest rates, but monetary tightening has still some way to go.

ECB: rates are moving up, bank lending conditions have been tightened and a quantitative tightening is being prepared.

China: moderately expansionary policies.

HIGH INFLATION

US inflation is trending down as commodity prices and bottlenecks ease and interest rates move up.

In Europe, pressures continue to build up amid more widespread and frequent price rises.

Expectations remain broadly under control, also in China, where inflation remains relatively low.

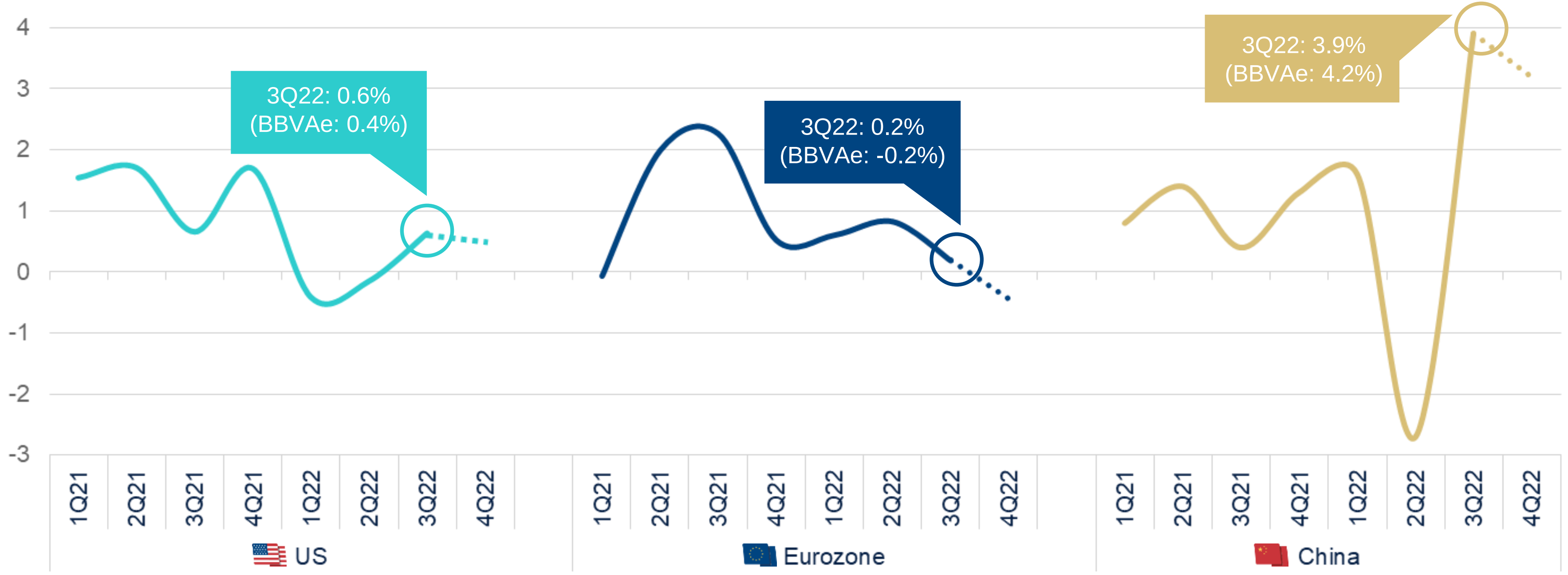
FINANCIAL VOLATILITY

Declining liquidity, higher rates and dollar strength have sparked volatility and corrections across financial markets and countries.

Financial turmoil has emerged in some specific cases, such as in the UK and in crypto markets.

Growth has lately surprised upwards in the US and the EZ, despite the negative trend, and downwards in China, mostly due to covid and real estate tensions

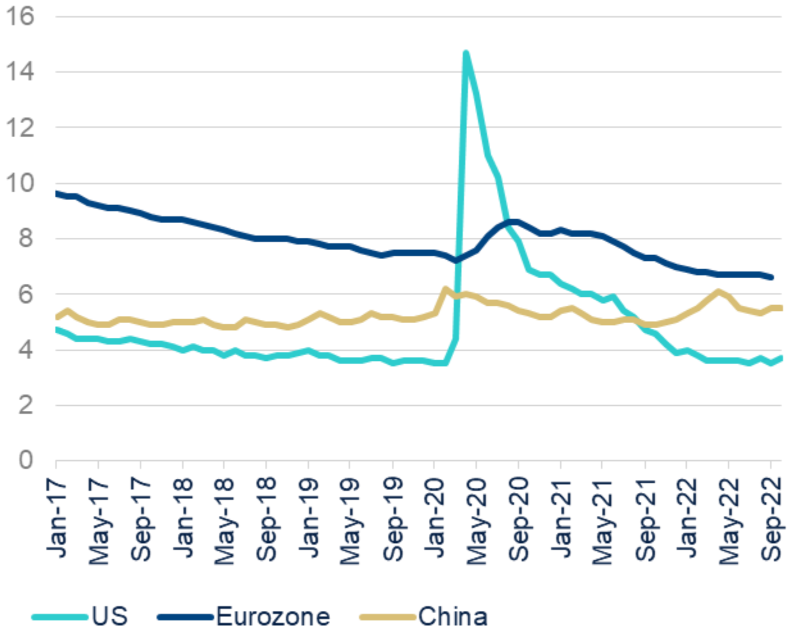
GDP GROWTH (*)
(QOQ %, SEASONALLY ADJUSTED)



(*): BBVA Research forecasts for the 4Q22
Source: BBVA Research based on data from Haver.

The labor market strength and the (fading) effects of the post-covid reopening continue to support private consumption in the US and in the Eurozone

UNEMPLOYMENT RATE
(%)

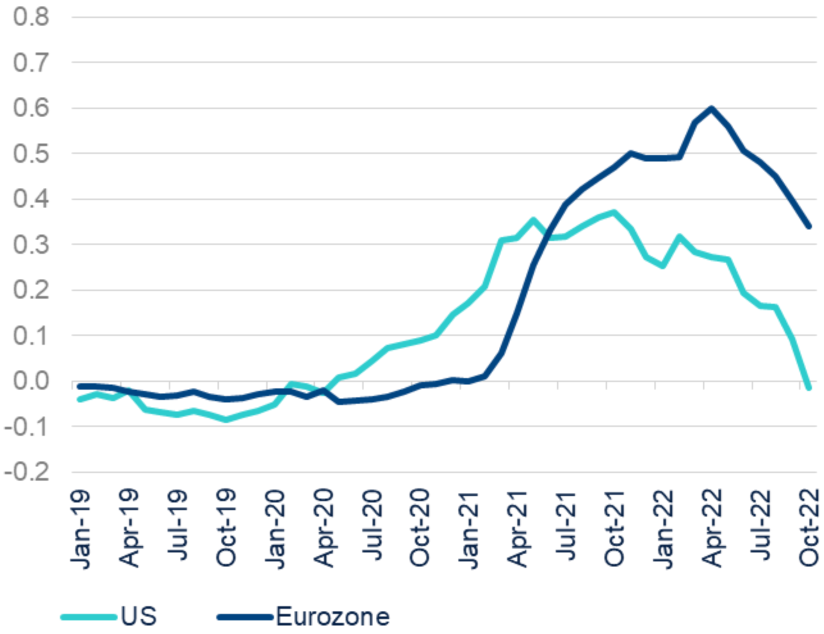


Source: BBVA Research based on data from Haver.

- Tight labor markets, mainly the US: unemployment is at record-low levels, job vacancies remain very high and wages are growing at a faster pace (but below inflation).
- Accumulated savings and pent-up demand seem to be still supporting demand, although at a declining pace.
- Private consumption has been holding up well, better than investment, despite easing signs: it grew 0.5% QoQ in 2Q22, 0.3% QoQ in 3Q22 in the US; 1.0% QoQ in 2Q22 in the Eurozone.
- In China, domestic demand shows a relatively downbeat tone given covid concerns and property markets tensions.

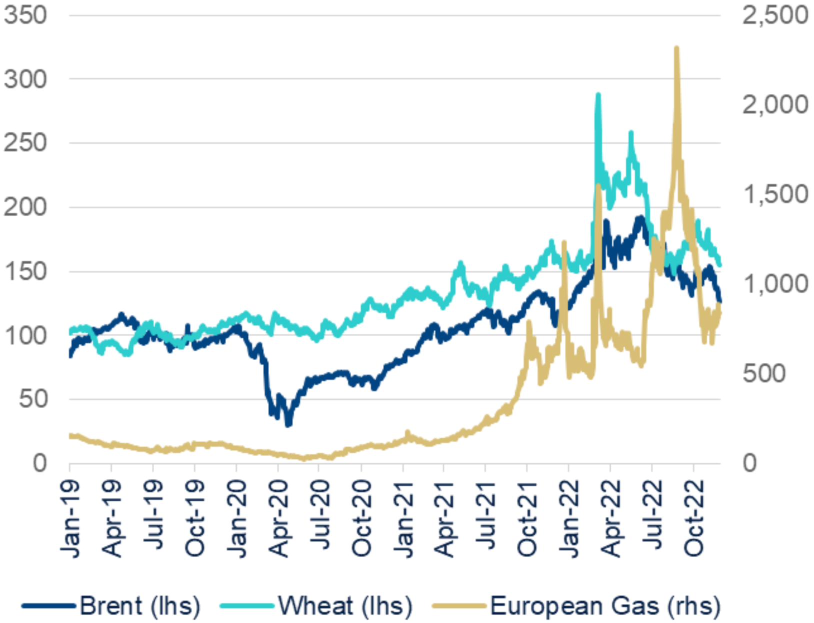
Growth slowing has contributed to easing bottlenecks and commodity prices; gas prices have fallen on high reserves and saving measures in the EU

BBVA RESEARCH BOTTLENECK INDEX
(INDEX: AVERAGE SINCE 2003 = 0)



Source: BBVA Research

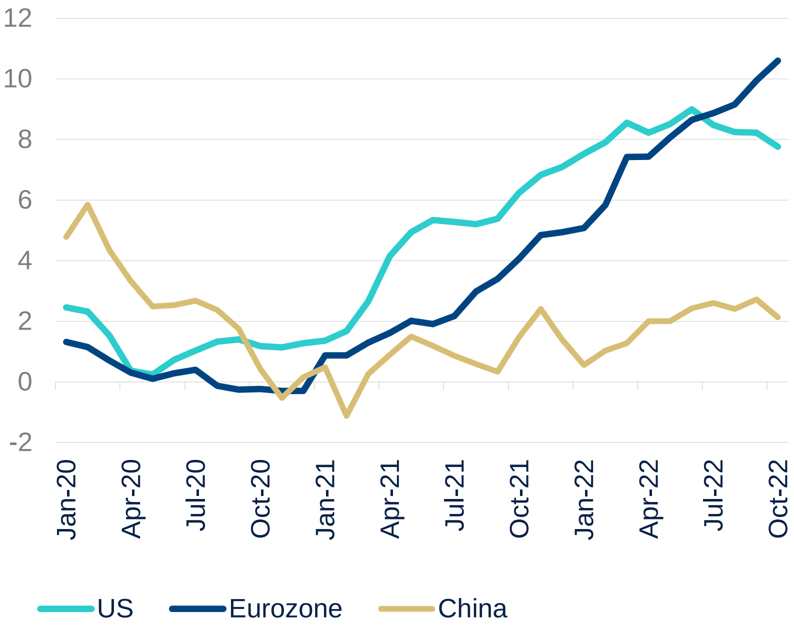
COMMODITY PRICES
(INDEX: 2019 AVERAGE = 100)



Source: BBVA Research based on data from Bloomberg

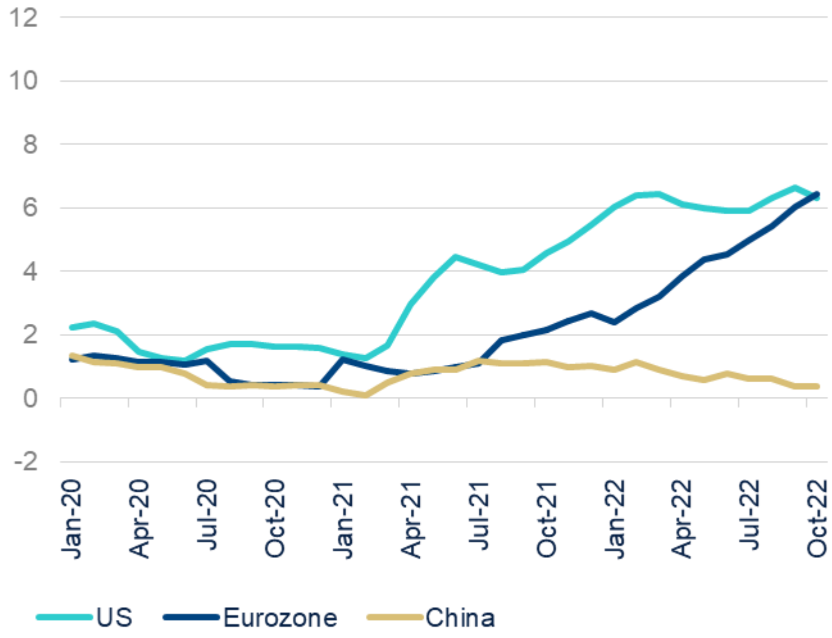
Inflationary pressures have continued to build in the Eurozone, started to recede in the US and remained under control in China

INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

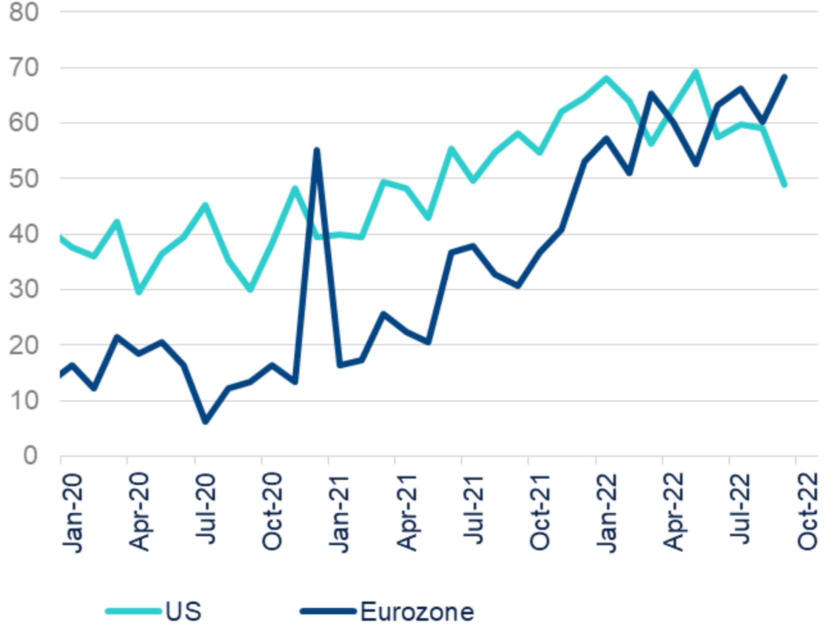
CORE INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

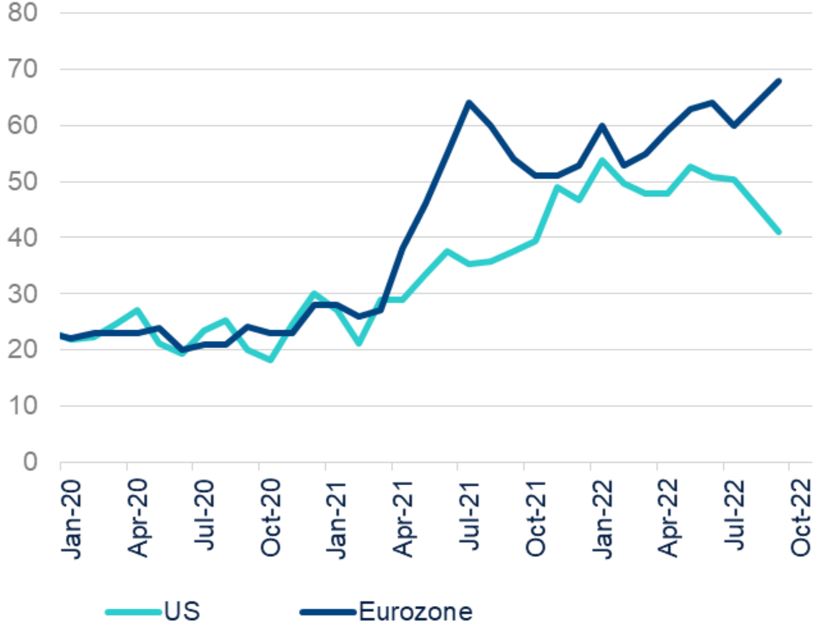
Price adjustments are still becoming more widespread and more frequent in the Eurozone, while the situation continues to improve in the US

ITEMS OF THE CPI BASKET WITH ANNUALIZED MONTHLY INFLATION HIGHER THAN 4%
(SHARE OF TOTAL 2-DIGIT CPI ITEMS)



Source: BBVA Research based on local statistics.

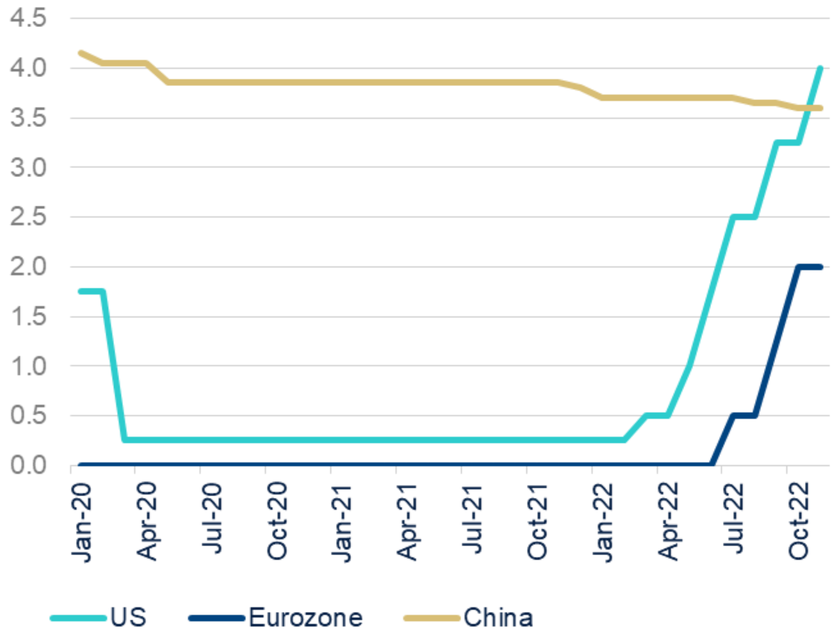
ITEMS OF THE CPI BASKET WITH THREE CONSECUTIVE MONTHLY PRICE RISES
(SHARE OF TOTAL 2-DIGIT CPI ITEMS)



Source: BBVA Research based on local statistics.

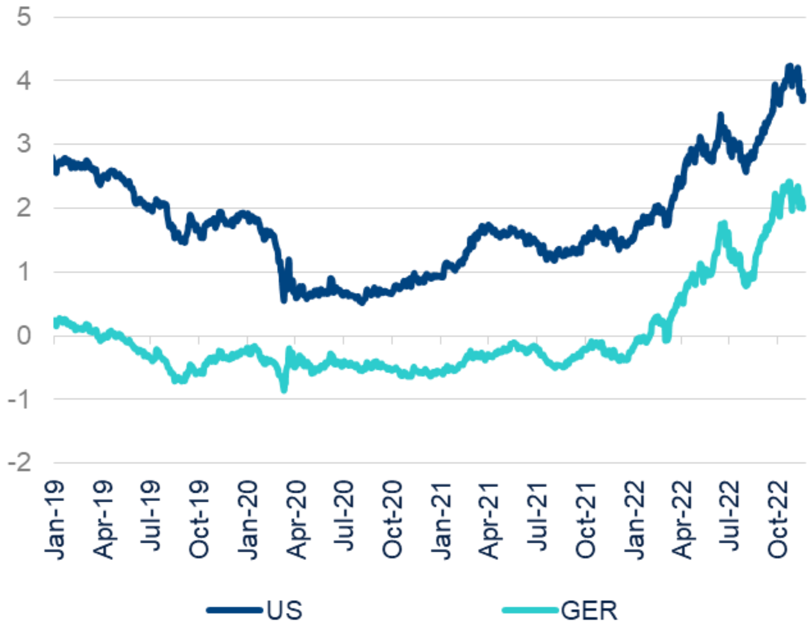
Policy rates are high and still rising; market rates have stabilized recently on prospects of a less hawkish Fed following lower inflation in the US

POLICY INTEREST RATES
(%, END OF PERIOD)



Source: BBVA Research based on data from Haver.

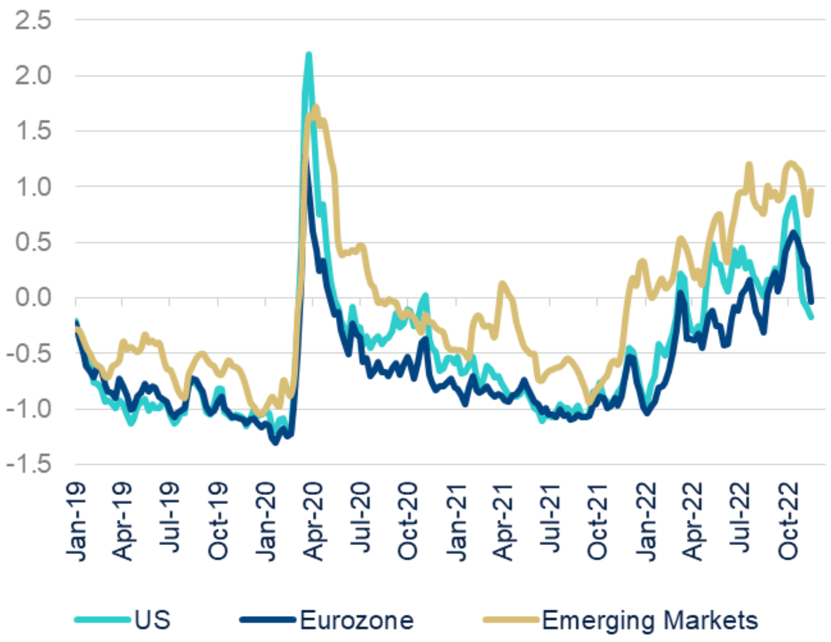
MARKET INTEREST RATES: US AND GERMANY 10-YEAR BOND YIELDS
(%)



Source: BBVA Research based on data from Haver.

Declining liquidity, higher rates and dollar strength have sparked volatility and corrections in financial markets, but a more upbeat tone has prevailed lately

BBVA RESEARCH FINANCIAL TENSIONS INDEX
(INDEX: AVERAGE SINCE 2006 = 0)



Source: BBVA Research.

- Financial volatility has increased across markets over the last months, despite some recent improvement.
- Low liquidity in sovereign bond markets is also a source of volatility and concerns.
- Most currencies have weakened against the USD, which is 11% up since Dec/21, although it has lost 4% in the last month.
- Leveraged loans, high-yield bonds and tech stocks, among others, have gone through large corrections.
- Emerging countries have faced capital outflows, while the EZ peripheral risk remains under control despite some increases.
- Stress has emerged in some specific cases, such as in the UK and in crypto markets.

A sharp growth deceleration, with (mild) recessions in the US and the EZ, is likely over 2023 as interest rates and inflation will remain at high levels

BBVA RESEARCH CENTRAL SCENARIO: MAIN ASSUMPTIONS AND IMPACTS

GROWTH TO SLOW DOWN SIGNIFICANTLY

Global growth to ease from 6.3% in 2021 to 3.3% (+0.1pp) in 2022, 2.3% (-0.1pp) in 2023, and to bounce back to 3.3% in 2024.

Energy prices to soon push the EZ into a recession, but gas shortages are not expected.

A mild recession by the mid-23 is likely in the US.

Growth to remain relatively weak, despite a likely recovery in China.

MONETARY TIGHTENING: STILL NOT OVER

Policy rates will continue to raise, but likely at a more gradual pace as inflation/growth lose steam.

Once they peak in 1Q23, rates are likely to remain unchanged at least till the end of 2023.

Rate increases will be complemented by quantitative tightening

Pro-growth measures to remain in place in China.

INFLATION TO EASE WHILE REMAINING HIGH

Inflation expected to slow as commodities prices and bottlenecks continue easing.

Wages are likely to grow more than in the past, but less than inflation.

Large second-round effects to be prevented.

Monetary tightening to reign in on expectations.

FINANCIAL VOLATILITY TO REMAIN IN PLACE

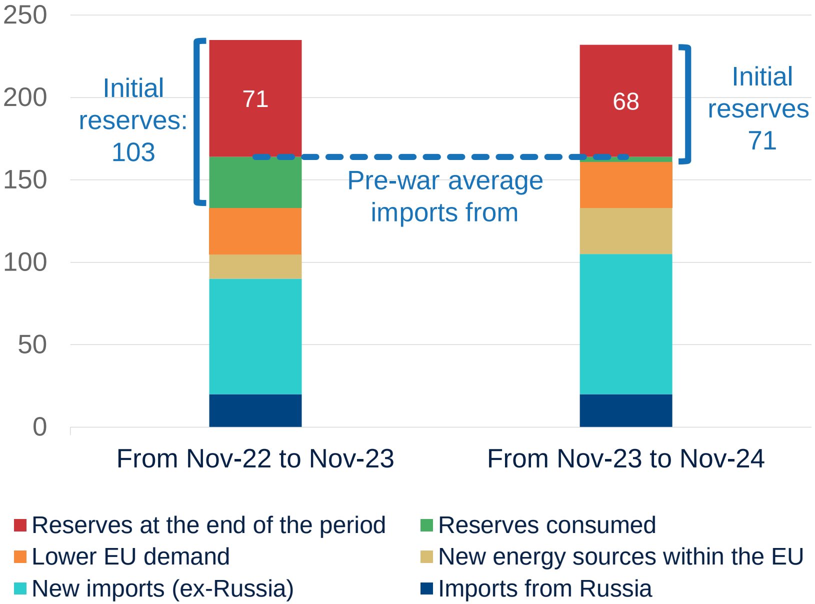
Inflation easing to take some pressure off central banks.

But lower global liquidity and high interest rates to continue supporting the USD and bond yields.

Volatility is set to remain relatively high and stress episodes should not be ruled out.

Gas markets: high reserves, saving measures and flows from alternative sources will prevent shortages in 2023, and, possibly, also in 2024

EUROPEAN GAS: BASE SCENARIO FOR SUBSTITUTION OF RUSSIAN IMPORTS (*)
(BCM: BILLION CUBIC METERS)



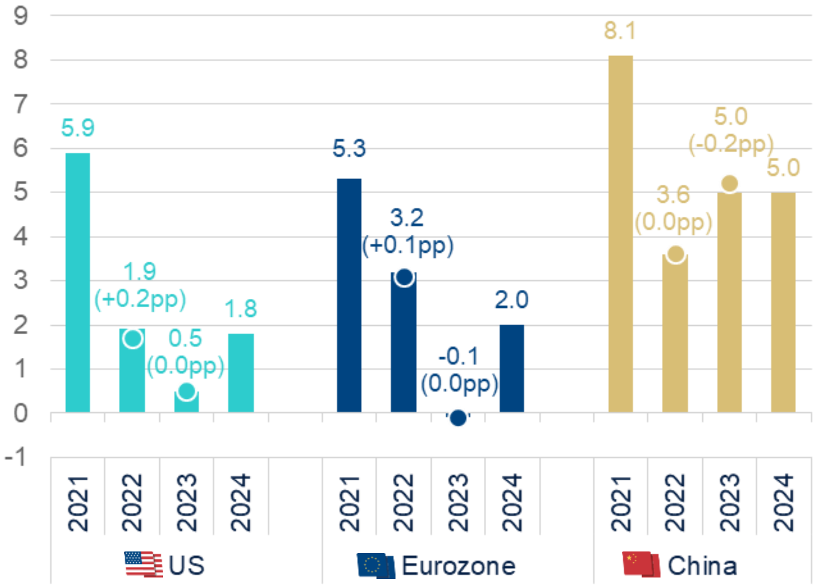
(*) Current reserves: 103 BCM. Imports from Russia ahead: 20 BCM/year. Assumed demand reduction: 7% lower than the pre-war (2017-21) average.
Source: BBVA Research.

- Base scenario: gas prices settle below record highs, but above current levels, with no shortages over 2023-24 even if Russia halves current provision (40 bcm/year) from now on.
- The main risk is that Russia cuts gas exports to zero: reserves could fall below 50 bcm in Nov/23, potentially insufficient to match the needs for the winter of 2024.
- This risk scenario implies that Russian liquified gas would likely be available to other buyers, meaning that Europe could find new supplies elsewhere.
- Scenarios ahead will depend on weather conditions and global demand for gas, on top of flows from alternative sources and saving measures in Europe.

Growth to stagnate before going back to potential levels in 2024 in the US and EZ in 2023, and to converge to 5%, with downside risks, in China

GDP: ANNUAL GROWTH IN REAL TERMS (*)

(%)



Previous forecasts (Oct-22) Updated forecasts (Nov-22)

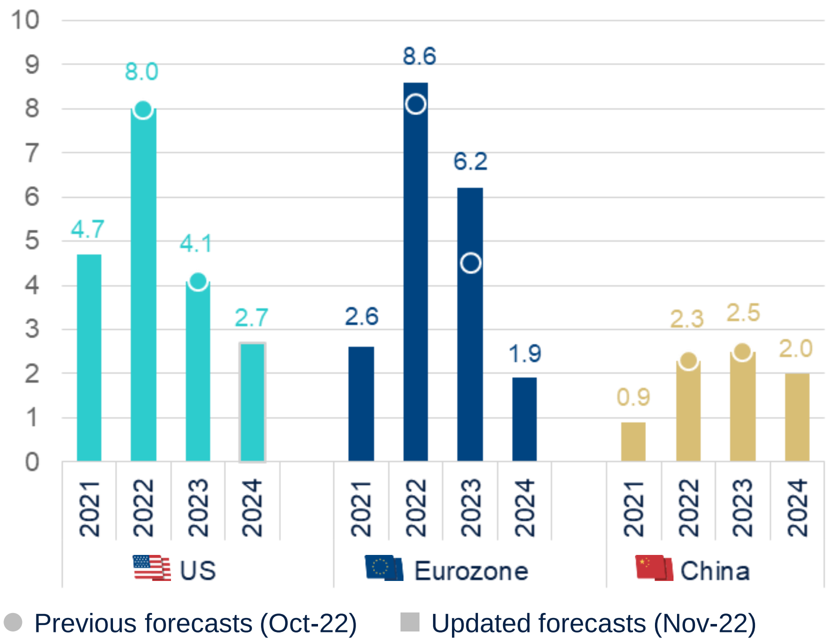
(*) Forecast change in parentheses.
Source: BBVA Research.

- 2022 GDP forecasts revised slightly up in US and EZ, in line with upward 3Q22 surprises.
- Deceleration prospects remain broadly unchanged: monetary tightening and price pressures will eventually hit harder labor markets and private consumption.
- A mild recession is likely over the next few quarters in the EZ, although gas shortages are not anticipated, and by mid-2023 in the US.
- In China, growth is still expected to recover, supported by infrastructure investment, but 2023 GDP forecast has been revised down.
- The recent measures to ease covid policies and support to the real estate sector are insufficient to significantly reduce concerns about weak growth.

Inflation will decline more quickly in the US than in the EZ, at least in 2023, as the shock imposed by the war will continue affecting mainly the latter

INFLATION:CPI

(Y/Y %, PERIOD AVERAGE)



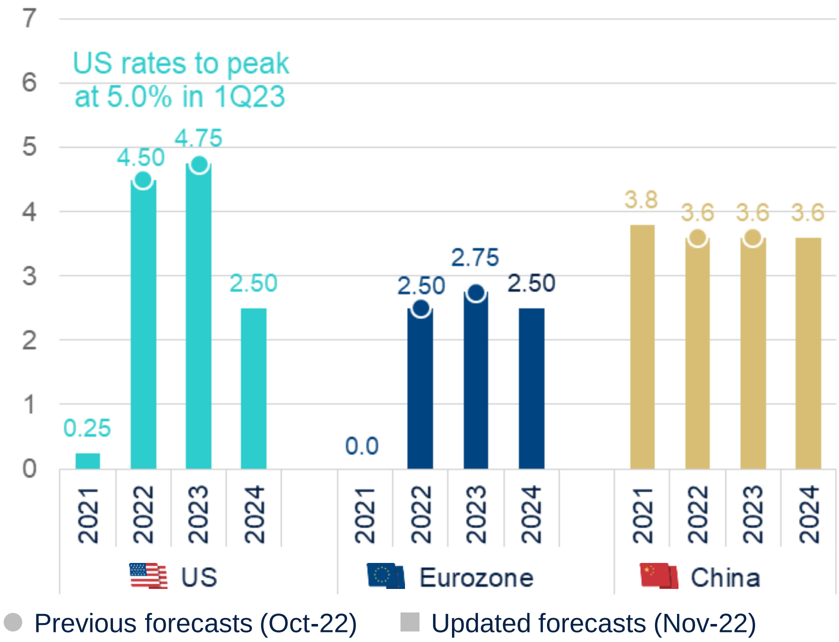
Source: BBVA Research.

- Inflation is set to continue slowing in the US as ongoing shocks wane and demand weakens, but it will be above the 2% target for some time.
- In the EZ, inflation is likely to soon peak, but forecasts have been revised up as the effects of more widespread price revisions, higher wage growth (to be around 4% ahead) and a weaker euro offset lower than expected energy prices.
- Inflation expectations are expected to remain broadly anchored both in the US and in the EZ.
- In China, inflation will continue at low levels largely on declining commodity prices, increasing imports from Russia and subdued demand.
- Inflation forecasts still have an upward bias.

The interest-rate hiking cycle is likely to come to an end in early 2023 in the US and the EZ, but there will be scarce room for monetary easing before 2024

MONETARY POLICY INTEREST RATES (*)

(%, END OF PERIOD)



(*) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research based on Bloomberg data.

- The Fed and the ECB will continue raising rates, but probably at a softer pace than in the last few months: policy rates to reach 5.0% in the US and 2.75% (with an upside bias) in the EZ in 1Q23.
- A long pause is likely afterwards: inflation above targets should prevent rate cuts before Dec/23.
- Although rate hiking cycles should be soon over, a quantitative tightening is set to remain in place in the US and to soon start in the EZ.
- A non-expansionary fiscal policy is likely in the US, but not necessarily in the EZ.
- In China, controlled inflation will allow policy rates to remain low, but significant monetary stimulus are not anticipated.

Risks: multiple factors, such as long-lasting inflation or new war-related shocks, could trigger a global recession or a financial crisis

MAIN SHORT-TERM RISKS TO THE WORLD ECONOMY

PERSISTENT INFLATION AND HIGHER RATES

UKRAINE WAR AND GEOPOLITICS

HARD-LANDING IN CHINA

SOCIAL TENSIONS AND POPULISM

GLOBAL RECESSION

Growth in G3 economies could weaken more than expected, pushing emerging markets and the global economy into a recession. In particular, if inflation refrains from easing significantly (due to new supply shocks or monetary policy mismanagement, for example), a stagflation scenario could also emerge.

FINANCIAL CRISIS

Declining global liquidity, higher Fed rates, financial volatility and a strong USD could trigger sharp corrections and financial turmoil. Risks are higher in some segments: leveraged loans, high yield debt markets, shadow banking, dollar indebted agents and EM countries, real estate in some DMs, etc.

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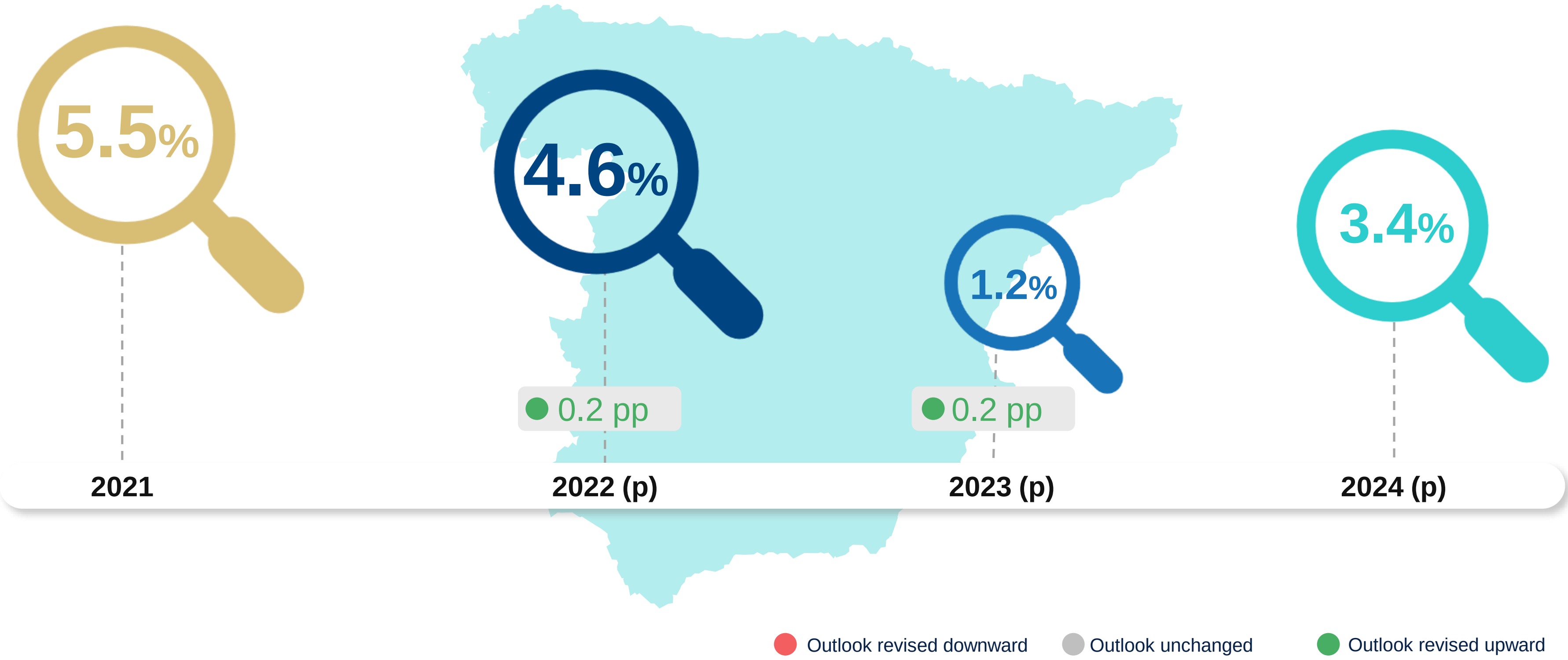
02

Spain Economic Outlook December 2022

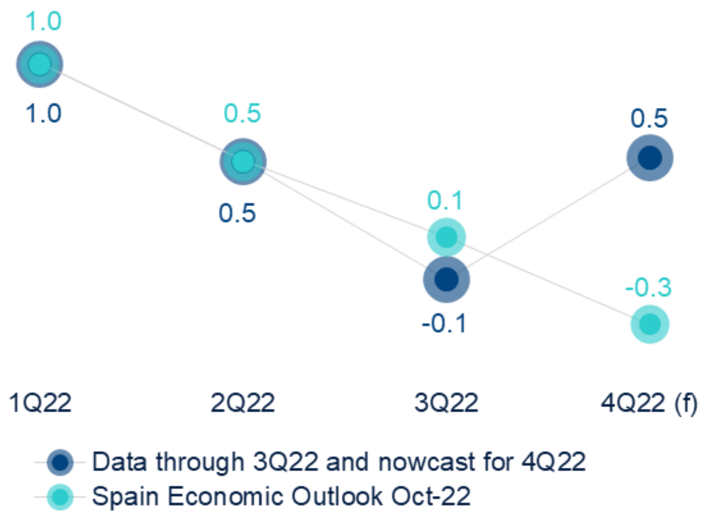
Moderate upward revisions in 2022 and 2023 and higher growth in 2024



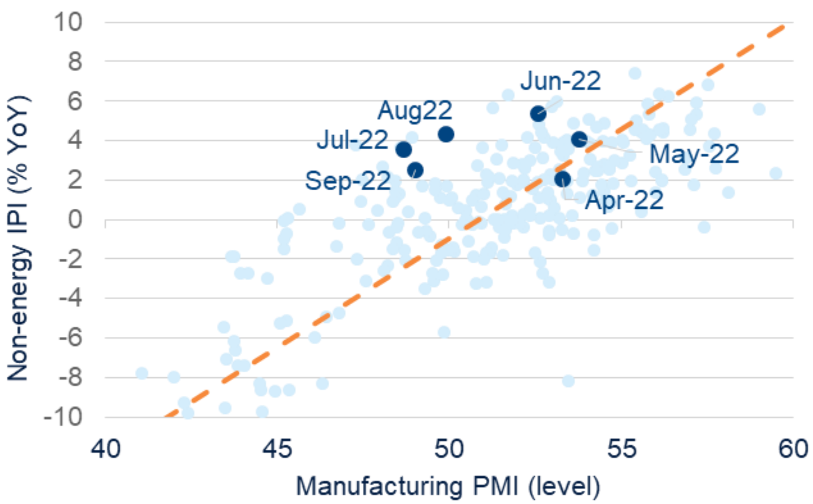
(p): forecast.
Source: BBVA Research, based on INE data.

Economy holding up better than expected

CHANGE IN EMPLOYMENT
(SWDA data. QUARTERLY GROWTH IN %)



NON-ENERGY IPI AND MANUFACTURING PMI
(% & LEVEL)

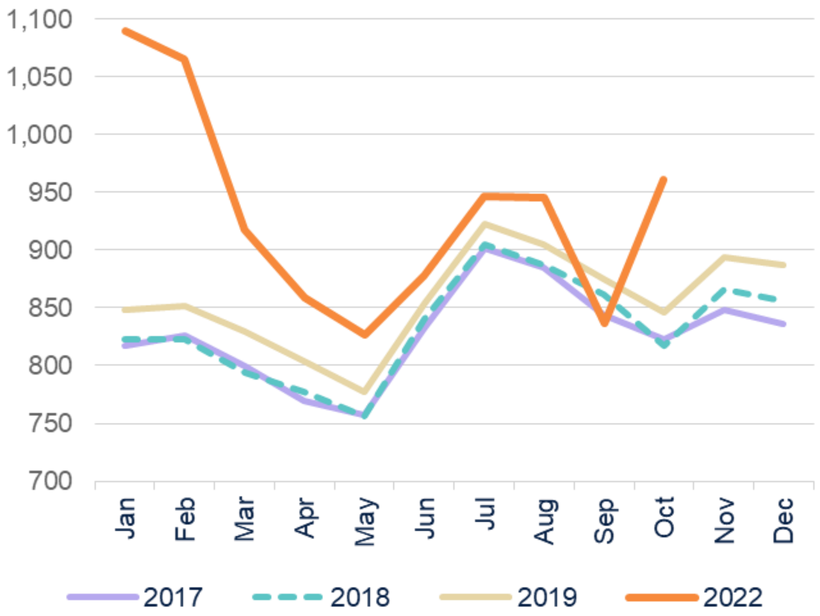


Source: BBVA Research, based on INE data.

The Social Security affiliation figures for October and the first half of November foreshadow a rebound in employment in 4Q22. Moreover, the worsening of expectations from June onward is not coupled with a weakening of industrial output.

Economy holding up better than expected

EMPLOYED JOBSEEKERS*
(THOUSANDS OF PEOPLE. END OF PERIOD)

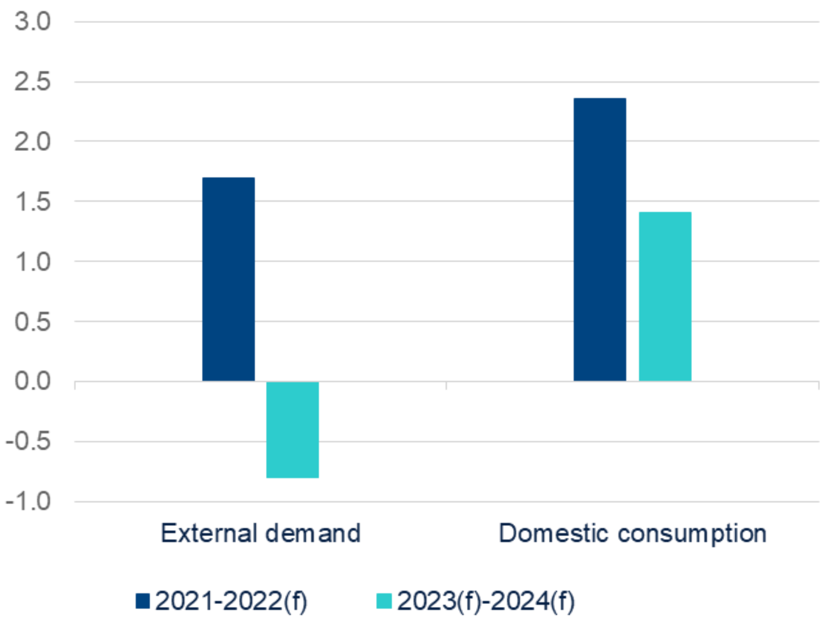


*Includes furloughed workers on ERTE, permanent seasonal workers in a period of inactivity and subsidized temporary agricultural workers, among others.
Source: BBVA Research based on data from the Ministry of Labor and Social Economy.

- The labor reform makes use of discontinuous permanent contracts more flexible as an alternative to the temporary contracts, which strengthens the tie between the employee and the employer.
- The growing importance of discontinuous permanent workers—now 6% of registered workers—and their classification as employed jobseekers when they are inactive distorts the use of registered unemployment as a measure of economic activity.
- The impact of the change is difficult to quantify, and the relationship between labor market developments and growth may have been altered. A fall in GDP in 4Q22 is more likely than growth.

Growth is slowing: lower contribution from external demand and private consumption

CONTRIBUTIONS TO GDP GROWTH
(ANNUAL AVERAGE. PP)

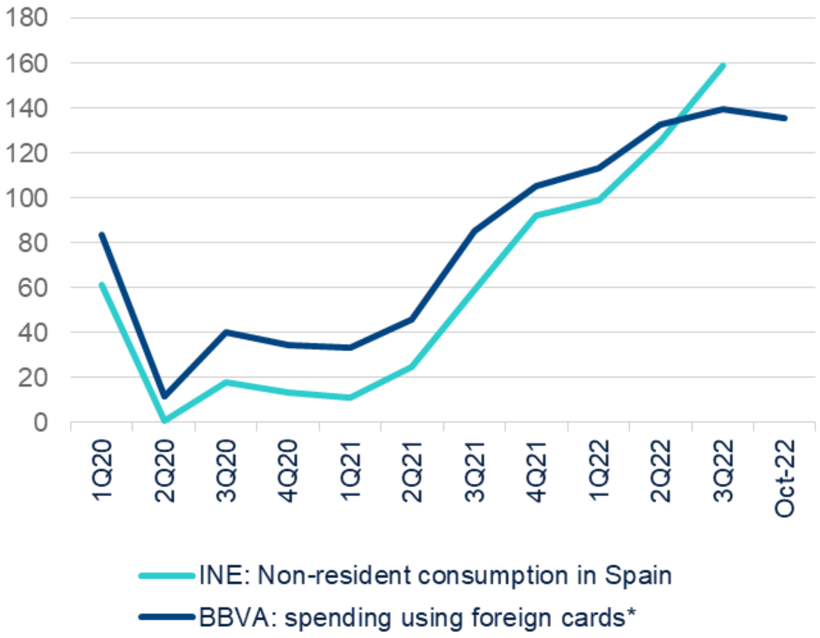


Source: BBVA Research, based on INE data.

- As a result of the improved performance of the economy, growth forecasts for 2022 and 2023 are revised upwards (+0.2 pp in each year, to 4.6% and 1.2%, respectively), although a contraction in activity remains possible in the coming months.
- The slowdown in activity and the fall in GDP expected at the beginning of next year are the result of various factors that will reduce the contribution of external demand and household consumption.

Growth is slowing: sluggish eurozone activity will slow export growth

FOREIGN NATIONALS' SPENDING IN SPAIN (SAME QUARTER 2019=100)



(*): Spending using cards issued by foreign banks at BBVA POS terminals.
Source: BBVA Research, based on BBVA and INE data.

- The entry into recession in the eurozone and the exhaustion of the recovery in the tourism sector will cause the contribution to external demand growth to turn negative in 2023 and 2024.
- Demand for Spanish goods and services from the rest of Europe will suffer.
- Added to this is the likely depletion of momentum from the lifting of pandemic-related restrictions, which will negatively affect the services sector.

Growth is slowing: growth in prices and rates will limit consumption growth

HOUSEHOLD DISPOSABLE INCOME AND WEALTH
(SWDA DATA DEFLATED BY THE CONSUMPTION DEFLATOR. CHANGE BETWEEN SEP-21 AND MAR-23)

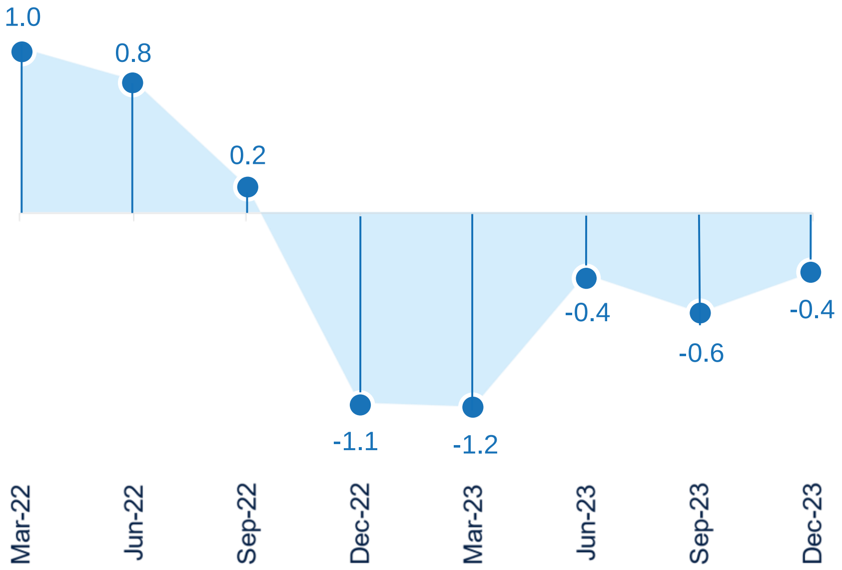
GROSS DISPOSABLE INCOME: -7.4

NET FINANCIAL WEALTH: -6.8

REAL ESTATE WEALTH: -2.6

Source: BBVA Research based on Bank of Spain and INE data.

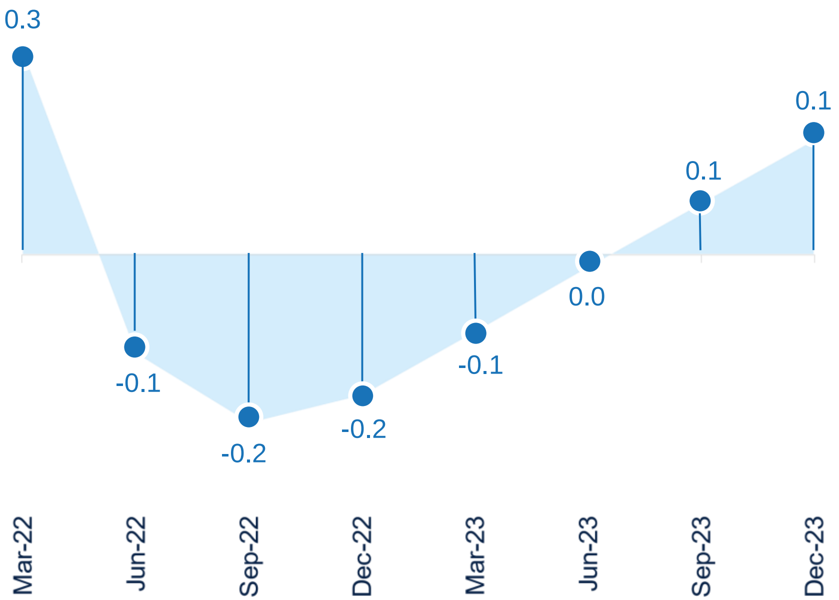
CONTRIBUTION OF HIGHER REAL INTEREST RATES TO QUARTERLY CONSUMPTION GROWTH* (PP)



*Interest rate on outstanding mortgage loans deflated by the private consumption deflator.
Source: BBVA Research.

Growth is slowing: uncertainty will continue to impact household spending

CONTRIBUTION OF DETERIORATING HOUSEHOLD CONFIDENCE TO QUARTERLY CONSUMPTION GROWTH* (PP)



*Purchase intentions for durable goods during the next twelve months.
Source: BBVA Research based on European Commission data.

- Spanish household spending will be affected by increased uncertainty, rising prices, a slowdown in employment and higher interest rates.
- This will particularly impact spending at the end of the year and early next year. To the above must be added the uncertainty related to the geopolitical context and economic policy as the electoral cycle progresses.

The economy will improve as the current uncertainties clear: lower energy prices will be key

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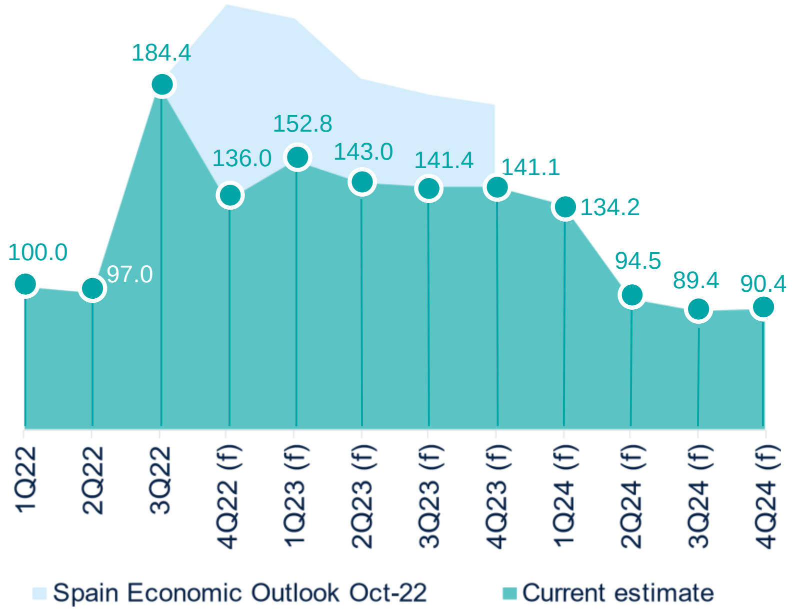
GAS PRICE BEHAVIOR

(1Q22 = 100)

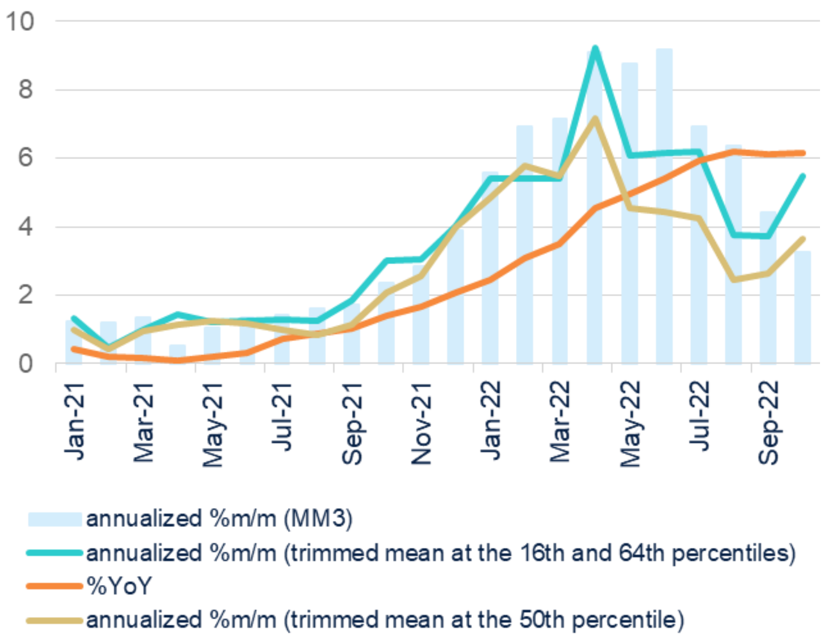


Source: BBVA Research based on Haver and Bloomberg.

- The gas rationing scenario is becoming less and less likely. Suppliers have been diversified, inventories have been built up and consumption has decreased.
- Gas prices have reversed much of the increase seen during the second and third quarters of the year.
- The decline in the price of gas could have a positive impact on activity growth of 0.1 pp annual average in 2022 and 2023.

Economy to improve as uncertainties melt away

CORE INFLATION INDICATORS
(YEAR-ON-YEAR GROWTH IN %)

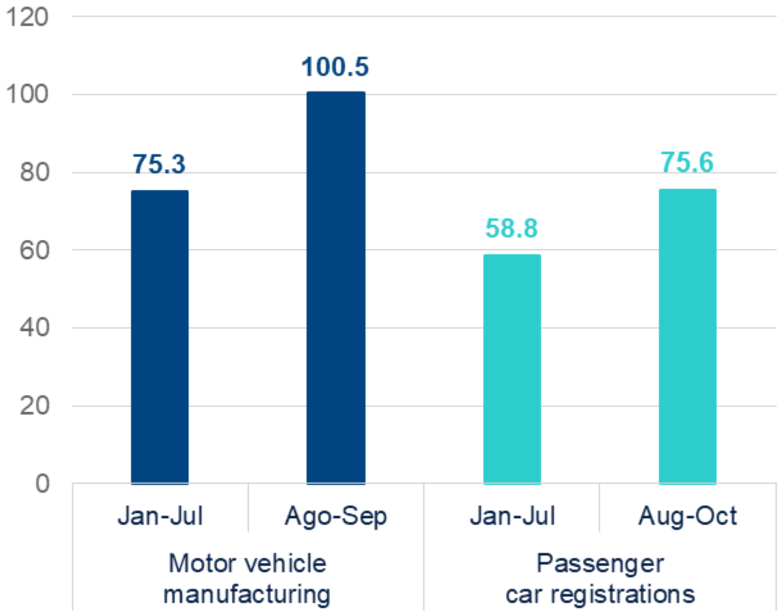


Source: BBVA Research, based on INE data.

- The fall in inflation will continue over the coming quarters, although reducing core inflation will be more difficult. The decline in gas prices comes on top of lower fuel costs and the easing of bottlenecks in production chains.
- The slowdown in demand will impact price formation. Sectors particularly affected by the increase in interest rates, such as housing and durable goods, may show somewhat sharper corrections. Part of the increase observed in the value of tourism services will be reversed, as the sector faces a less favorable environment.

Economy to improve as uncertainties melt away

MOTOR VEHICLE PRODUCTION AND AUTOMOBILE REGISTRATIONS IN 2022
(SWDA data. 2019 = 100. MONTHLY AVERAGE)

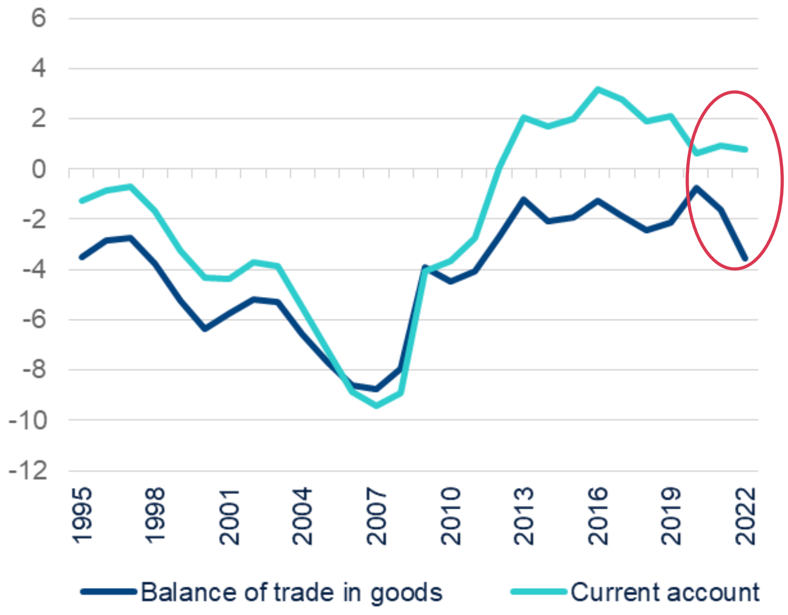


Source: BBVA Research, based on INE and Ideauto.

- Since 2019 car sales have suffered a series of headwinds, such as tax changes, regulatory uncertainty, doubts about buying electric vehicles, the pandemic, work-from-home, and competition from alternative modes of transportation.
- The key constraint to recovering previous business levels is the lack of availability of cars due to bottlenecks affecting the supply of certain inputs.
- There is evidence of an incipient supply recovery, so pent-up demand could emerge. Thus, car sales could grow by 10% to 25% by 2023.

Spanish economy is better prepared: no major imbalances to correct

BALANCE OF TRADE IN GOODS AND CURRENT ACCOUNT BALANCE
(% GDP)

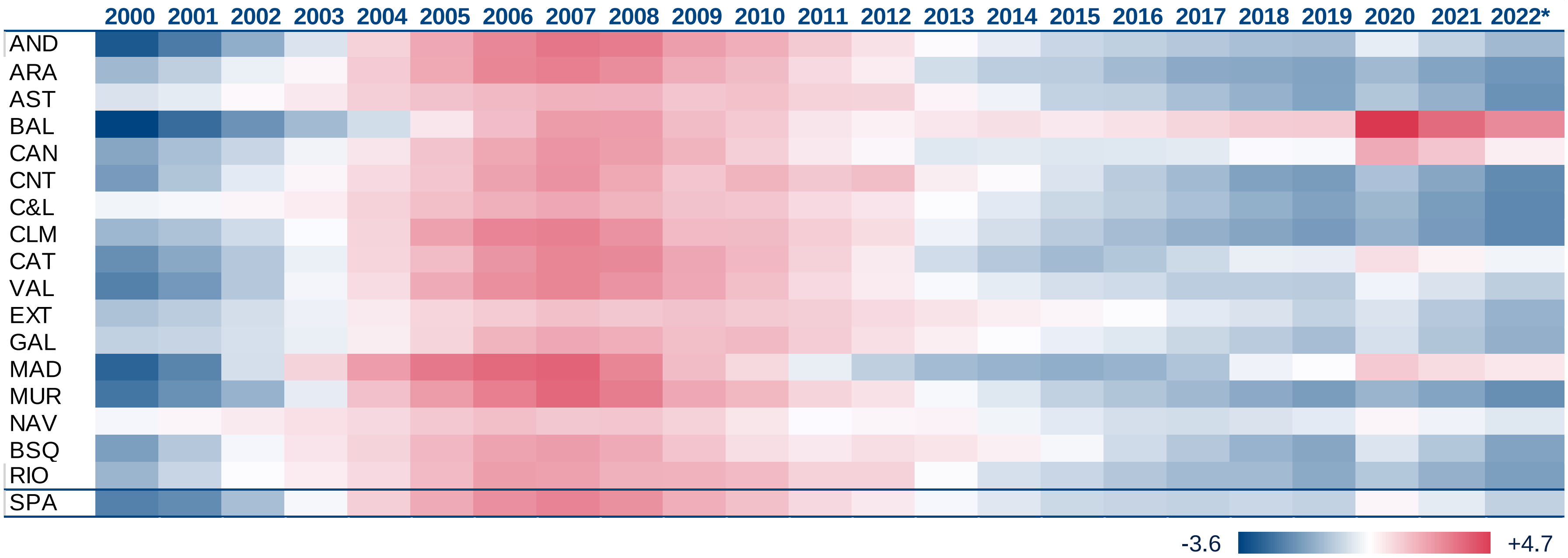


Source: BBVA Research based on Bank of Spain.

- Historically, the Spanish economy has gone into crisis after accumulating imbalances that have led to an increase in external indebtedness. Moreover, with each episode of rising oil prices, the current account balance has gone into deficit.
- On this occasion, it has maintained a surplus (1.0% of GDP in 2022) and continued the deleveraging process vis-à-vis the rest of the world, despite the worsening balance of trade in goods due to the increase in the cost of imported energy.
- The positive performance of the current account balance has been possible thanks to the good performance of the services sector, mainly tourism, and to the reduction of the public deficit.

Spanish economy is better prepared: no major imbalances to correct

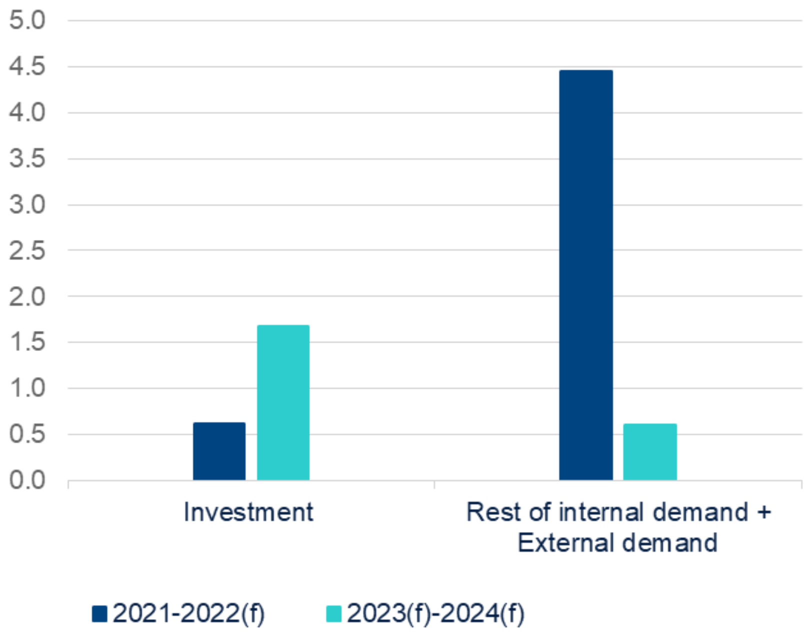
HOUSE PRICE TO PER CAPITA INCOME RATIO
(DEVIATIONS FROM THE MEAN 2000–2019)



*Data to 3Q22.
Source: BBVA Research, based on MITMA and INE data.

Fiscal policy will help sustain investment

CONTRIBUTION TO YEAR-ON-YEAR GDP GROWTH
(ANNUAL AVERAGE, PP)

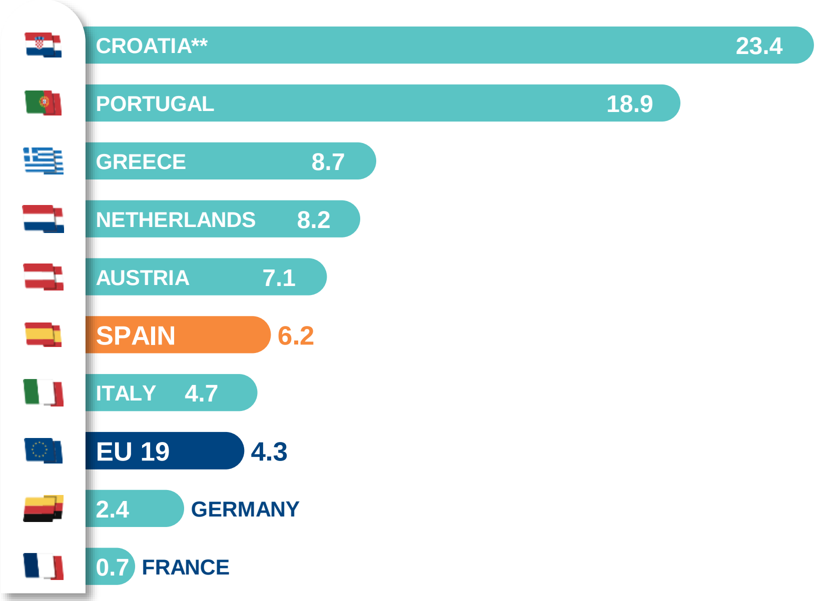


Source: BBVA Research, based on INE data.

- Fiscal policy will be expansionary over the next two years, thanks to transfers received from NextGenerationEU (NGEU) funds. In the absence of the public investment effort expected for the following year, the forecast for GDP performance would be closer to contraction than to moderate growth.
- During the first three quarters of the year, the central government has authorized (approved and implemented) spending programs linked to the Recovery, Transformation and Resilience Plan (Spanish 'PRTR') in the amount of €21.6 billion, 75% of the total planned for this year.

Risk: concern for loss of competitiveness in the tourism industry

HARMONIZED CPI FOR ACCOMMODATION
(DEVIATION FROM JAN 22-OCT 22 AVERAGE WITH RESPECT TO TREND AVERAGE* IN 2022)

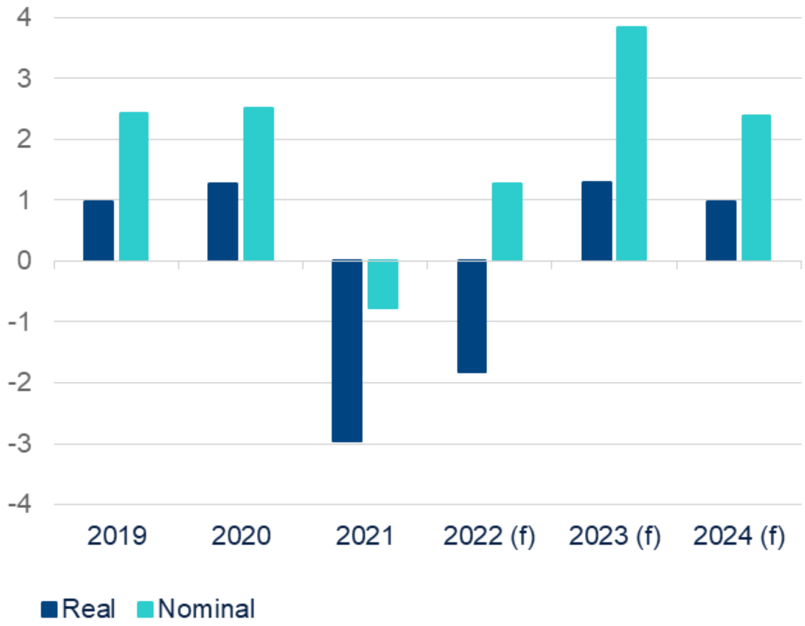


*Trend calculated using data since Jan-95, except for Greece and France, since Jan-96, and for Croatia since Jan-98. ** Croatia linear trend 2002-2022
Source: BBVA Research based Haver.

- There are concerns about the performance of the tourism sector, given the loss of competitiveness and the correction in demand due to the fall in household income and possible changes in consumption habits.
- Accommodation prices may be 6% overvalued in Spain. Other destinations, such as Croatia (23%), Portugal (19%) or Greece (9%), may show even wider deviations from equilibrium.
- Going forward, the sector faces a scenario in which margins may undergo a correction of uncertain intensity.

Risk: wages and inflation

WAGES PER EMPLOYEE
(YEAR-ON-YEAR VARIATION, %)

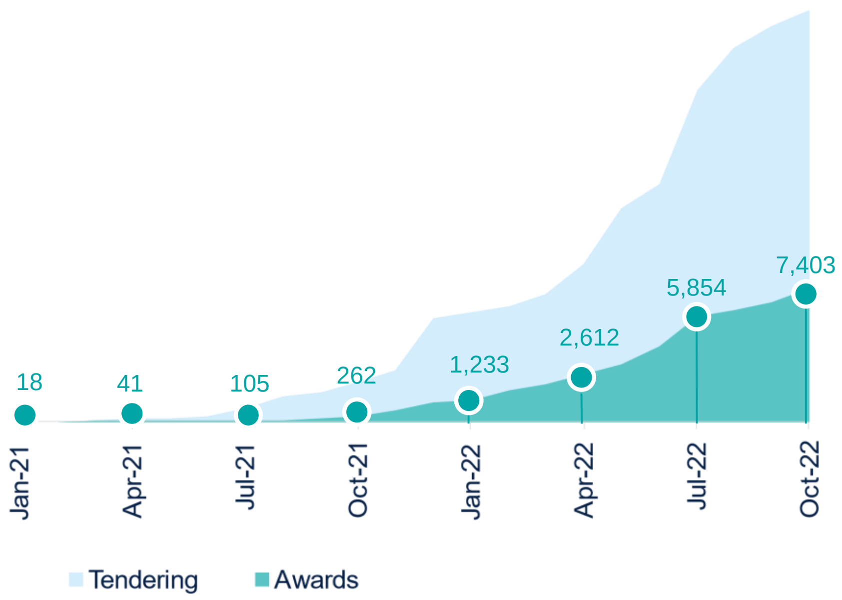


Source: BBVA Research, based on INE data.

- Inflation may remain elevated due to the impact of collective bargaining in the coming months.
- The rise in prices is widespread, suggesting that businesses are trying to recover some of their lost profitability. Wages are increasing at a higher rate than in the years prior to the pandemic, although without recovering the purchasing power they had.
- The consolidation of the 'income pact' will be key to the future behavior of inflation. If there is no agreement to accept a loss of purchasing power for the vast majority, there could be sources of social tension.

Risk: delayed implementation of NGEU funds

GOVERNMENT TENDERS FUNDED BY THE MRR
(€ MILLION)



() For further details see the report Follow-up of the Recovery Plan (PRTR). November 2022.
Source: BBVA Research based on Plataforma de Contratación del Sector Público (PLACSP).

- Although the disbursement of NGEU funds appears to be gaining traction, its impact will still take time to reach households and businesses.
- In the absence of an evaluation to determine whether there have been flaws in the design of how the funds are dusbursed, it is necessary to try to improve the information received by the private sector on the entire process.
- In total, since the start of the Plan in 2021 and until October 2022*, contracts have been tendered for an amount equivalent to more than 43% of the total programmed expenditure (€52.6 billion in 2021 and 2022), of which almost 32% have been awarded (including almost everything tendered in 2021).

Risk: ensuring fiscal sustainability with a tax system that does not impair growth and expenditure that meets expectations

DEFICIT, GOVERNMENT REVENUE AND EXPENDITURE, EXCLUDING AID TO THE FINANCIAL SECTOR (% OF GDP)

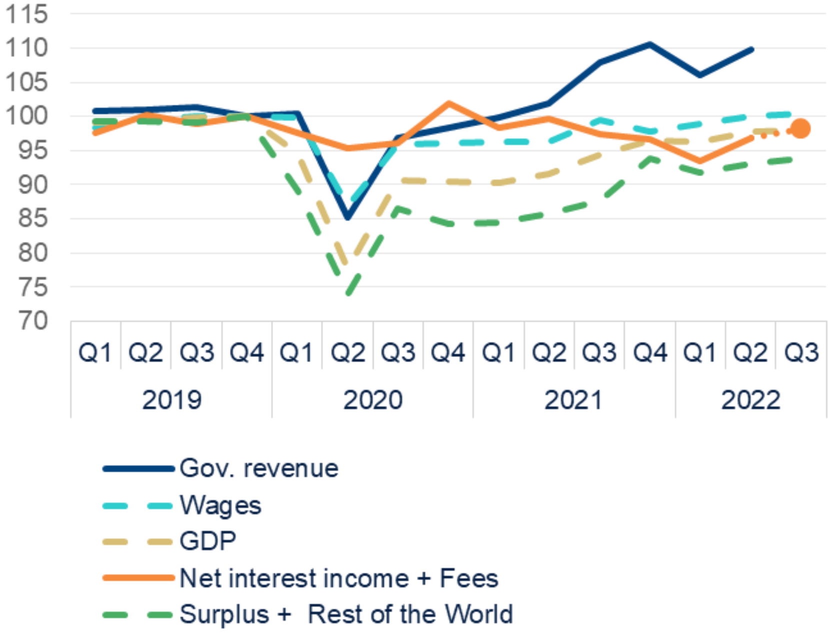
	2019	2022 (f)
DEFICIT	-2.9	-3.9
REVENUE	39.2	44.1
EXPENDITURE	42.1	481

Source: BBVA Research based on Ministry of Finance data.

- The budget implementation through August points to a year-end public deficit close to 4% of GDP, with upward biases due to recent spending measures. The adjustment towards levels similar to those of 2019 occurs with 5 pp more revenue and 6 pp more expenditure.
- It is necessary to evaluate whether the composition of revenues is efficient, promotes growth, maximizes revenue collection, and meets the goals of redistribution and sustainability.
- It is critical to examine the increase in expenditure and determine whether it is consistent with the demand for public services, the protection of vulnerable groups and the increase in the price of energy.

Tax reform is needed to reduce distortions in consumption and investment

GDP, GOVERNMENT REVENUE, NET INTEREST INCOME AND FEES AND COMMISSIONS 2019-2022
(4Q19 = 100, % GDP)



Source: BBVA Research based on INE and Bank of Spain

- The introduction of a specific levy on banks disregards the fact that the sector's profitability has been lower and more volatile than that of the rest of the economy. In 2019, the average return on equity for banks was 6.9% compared to 10.7% for large companies. In 2020, it was -0.7%, compared to 7.2%; and in 2Q22 it was 8%, compared to the 12% projected for companies.
- Furthermore, it is not designed to capture 'windfall profits,' but rather net interest income plus net fees, without considering operating costs and new regulatory requirements. At the end of 2Q22, net interest income had not recovered to its pre-pandemic level (in real terms), which calls into question its being a 'windfall.'

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Forecasts

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Forecasts

% y/y	2021	2022 (f)	2023 (f)	2024 (f)
National final consumption expenditure	5.1	0.9	1.1	2.5
Private consumption	6.0	2.0	0.9	2,8
Public consumption	2.9	-1.7	1.5	1.9
Gross fixed capital formation	0.9	5.2	5.3	11.3
Equipment and machinery	6.3	6.1	4.2	11.2
Construction	-3.7	4.1	4.9	12.0
Housing	-4.8	2.6	1.4	11.3
Domestic demand*	**5.2**	**1.5**	**1.9**	**4.3**
Exports	14.4	17.3	-0.2	4.8
Exports of goods	10.6	1.9	3.0	5.7
Exports of services	27.0	66.2	-6.5	3.0
Final consumption by non-residents in Spain	77.0	184.9	-10.9	0.6
Imports	13.9	8.8	1.6	7.7
External demand*	**0.3**	**3.1**	**-0.7**	**-0.9**
Real GDP at market prices (mp)	**5.5**	**4.6**	**1.2**	**3.4**

* Contribution to GDP growth.
(f): forecast.
Source: BBVA Research based on INE and BdE.

Forecasts

% y/y	2021	2022 (p)	2023 (f)	2024 (f)
Employment (full-time equivalent)	6.6	3.9	1.1	2.7
Employment, based on Labor Force Survey	3.0	3.3	1.1	2.8
Unemployment rate (% of labor force)	14.8	12.8	12.8	11.3
CPI (annual average)	3.1	8.5	4.0	2.8
GDP deflator	2.4	3.3	2.6	1.4
Public deficit (% GDP)	-6.8	-3.9	-4.0	-3.0

(f): forecast.
Source: BBVA Research based on INE and BdE.

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Spain Economic Outlook

December 2022

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