

**EXECUTIVE
BOARD
MEETING**

SM/22/277
Supplement 3

January 12, 2023

To: Members of the Executive Board

From: The Secretary

Subject: **Spain—Staff Report for the 2022 Article IV Consultation—Revised Draft Press Release**

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|-------------------------|--|
| Board Action: | Executive Directors' consideration (Formal) |
| Tentative Board Date: | Wednesday, January 18, 2023 |
| Publication: | Yes* |
| Additional Information: | The text and table have been revised to ensure consistency with projections included in the staff supplement (SM/22/277, Sup. 2, 1/12/23). |
| Questions: | Ms. Iakova, EUR (ext. 35365) Ms. Shi, EUR (ext. 37438) Ms. Lariau, EUR (ext. 35779) Mr. Arregui, EUR (ext. 38456) |

* Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.



IMF Executive Board Concludes 2022 Article IV Consultation with Spain

FOR IMMEDIATE RELEASE

Washington, DC – [January 19, 2023]: On January 18, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Spain.

Economic activity in Spain has remained resilient despite the new headwinds posed by the fallout of Russia's invasion of Ukraine. Strong rebound in tourism and other services have supported growth this year. Employment has surpassed its pre-pandemic level. However, elevated global energy and food prices, the weakening of trading partners' growth, deteriorating consumer and business confidence, and rising interest rates have slowed the recovery of output.

Elevated inflation in 2022 was largely caused by surging energy prices and persistent supply constraints. After reaching double-digit levels in the summer, headline inflation declined to 5.8 percent in December, reflecting a drop in European gas prices and the impact of energy support measures. Core inflation remains above 6 percent due to a gradual passthrough of higher energy costs to broader prices and, possibly, diminishing spare capacity in the economy. Wage pressures have been contained so far.

Growth is projected to moderate from 5.2 percent in 2022 to 1.1 percent in 2023 reflecting the effects of high energy and food prices, tighter financial conditions, and weaker external demand. Output is projected to reach its pre-pandemic level by early 2024. Headline inflation is expected to continue to moderate gradually in 2023 reflecting a high base in 2022, the reduction of supply bottlenecks, and some normalization of global fossil fuel prices. Nevertheless, both headline and core inflation are likely to remain above the 2-percent target in the near term.

Uncertainty around the outlook is significant. Downside risks include tighter-than-expected financial conditions, weaker global demand, and further energy price volatility. On the upside, accelerated use of NGEU funds and faster unwinding of household savings could boost domestic demand.

Executive Board Assessment²

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¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Spain: Selected Economic Indicators
(Annual percentage change, unless noted otherwise)

| | 2019 | 2020 | 2021 | Projections 1/ | | | |
|---|-------|-------|-------|----------------|-------|-------|-------|
| | | | | 2022 | 2023 | 2024 | 2025 |
| Demand and supply in constant prices | | | | | | | |
| Gross domestic product | 2.0 | -11.3 | 5.5 | 5.2 | 1.1 | 2.4 | 2.2 |
| Private consumption | 1.1 | -12.2 | 6.0 | 2.7 | 1.7 | 2.2 | 2.5 |
| Public consumption | 1.9 | 3.5 | 2.9 | -1.4 | 0.8 | 0.7 | 0.4 |
| Gross fixed investment | 4.5 | -9.7 | 0.9 | 5.3 | 4.4 | 4.2 | 2.3 |
| Total domestic demand | 1.7 | -9.4 | 5.3 | 2.0 | 2.1 | 2.3 | 2.0 |
| Net exports (contribution to growth) | 0.4 | -2.2 | 0.3 | 3.2 | -0.9 | 0.1 | 0.2 |
| Exports of goods and services | 2.2 | -19.9 | 14.4 | 18.6 | 5.1 | 3.8 | 3.8 |
| Imports of goods and services | 1.3 | -14.9 | 13.9 | 9.7 | 7.6 | 3.6 | 3.4 |
| Potential output growth | 1.5 | -3.2 | 1.4 | 1.2 | 1.1 | 1.8 | 2.3 |
| Output gap (percent of potential) | 0.4 | -8.0 | -4.2 | -0.5 | -0.5 | 0.0 | 0.0 |
| Prices | | | | | | | |
| GDP deflator | 1.5 | 1.2 | 2.3 | 3.9 | 3.8 | 2.7 | 2.2 |
| Headline CPI (average) | 0.7 | -0.3 | 3.1 | 8.4 | 3.7 | 2.7 | 2.1 |
| Headline CPI (end of period) | 0.8 | -0.5 | 6.5 | 5.8 | 3.8 | 2.4 | 2.0 |
| Core inflation (average) | 0.9 | 0.7 | 0.8 | 5.1 | 4.6 | 3.4 | 2.5 |
| Core inflation (end of period) | 1.0 | 0.1 | 2.1 | 6.9 | 3.9 | 2.9 | 2.5 |
| Employment and wages | | | | | | | |
| Unemployment rate (percent) | 14.1 | 15.5 | 14.8 | 12.8 | 12.8 | 12.5 | 12.3 |
| Labor costs, private sector | 2.2 | 4.0 | 0.0 | 3.4 | 4.5 | 2.5 | 2.1 |
| Employment growth | 2.3 | -2.9 | 3.0 | 3.1 | 0.5 | 0.8 | 0.6 |
| Balance of payments (percent of GDP) | | | | | | | |
| Current account balance | 2.1 | 0.6 | 1.0 | 1.6 | 0.5 | 0.3 | 0.4 |
| Net international investment position | -73.7 | -85.7 | -71.5 | -62.7 | -57.6 | -53.1 | -49.5 |
| Public finance (percent of GDP) | | | | | | | |
| General government balance 2/ | -3.1 | -10.3 | -6.9 | -4.5 | -4.6 | -3.5 | -3.7 |
| Structural balance | -3.0 | -5.4 | -4.2 | -4.2 | -4.3 | -3.5 | -3.7 |
| Primary structural balance 3/ | -0.8 | -3.1 | -2.1 | -2.0 | -1.9 | -1.0 | -1.1 |
| General government debt | 98.2 | 120.4 | 118.4 | 112.8 | 112.1 | 110.0 | 109.0 |

Sources: IMF, World Economic Outlook; data provided by the authorities; and IMF staff estimates.

1/ The projections incorporate allocation from the EU Recovery and Resilience Facility amounting to about 0.4, 1.1, 1.7, 1.3 and 1 percent of GDP from 2021 to 2025.

2/ Fiscal projections from 2022 onwards assume an expiration of temporary COVID-19 measures and energy support measures amounting to 1 percent of GDP in 2023.

3/ Including interest income.