

2.6. SPAIN

After the subdued expansion observed in the first half of 2021 due to the containment measures still in force, the recovery in economic activity gained traction in the second half of the year. GDP grew by 2.6% (quarter-on-quarter) in Q3 and 2.0% in Q4. Investment and net exports were the main drivers of the growth momentum during this period, while rising consumer prices, surging infections and uncertainty restrained private consumption. Overall, GDP increased by 5.0% in 2021.

The rapid increase of COVID-19 infections in the last weeks of December had a moderate immediate impact on the economy, as administrative restrictions remained relatively soft. As in the previous waves of the pandemic, contact-intensive services bore the brunt. The first quarter of 2022, however, is likely to see more sizeable adverse effects of the resurgence of infections, when the increasing number of sick leaves is set to act as a drag on labour supply. As a result, quarterly GDP growth is expected to slow down to 0.6%.

Economic growth is set to regain momentum as from the second quarter of 2022, with quarterly growth rates above 1% until the beginning of 2023. Afterwards, GDP growth is projected to moderate as the output gap closes and turns positive. Private consumption and investment are expected to be the main drivers of economic growth over the forecast horizon. The savings accumulated during the pandemic and recent pension increases will support consumption, while the implementation of the Recovery and Resilience Plan investment. The gradual normalisation of international tourism is set to enable a positive contribution from net exports to GDP growth. Overall, real GDP is expected to expand by 5.6% in 2022 and 4.4% in 2023. The gap with Spain's pre-pandemic GDP level is now projected to be closed by 2022-Q4.

HICP inflation peaked in the last quarter of 2021, when prices rose by 5.8% year-on-year on the back of skyrocketing energy prices and strong base effects. Headline inflation is expected to remain high in the first half of 2022, primarily driven by energy prices. In addition, producers are expected to pass on to consumers part of the increase in non-wage costs. Following it, HICP inflation is projected to start easing in the second half of 2022 and decelerate further in 2023, thanks to the stabilisation of energy prices and reversed base effects. Overall, annual HICP inflation is forecast to increase from 3.0% in 2021 to 3.6% in 2022, and then abate to 1.1% in 2023.

