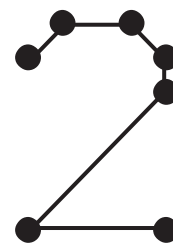


Economic, sectoral and regulatory environment



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The key factors at play in 2022 were the war in Ukraine and the energy crisis in Europe, while increasingly less importance was attached to Covid-19.

Economic and financial environment

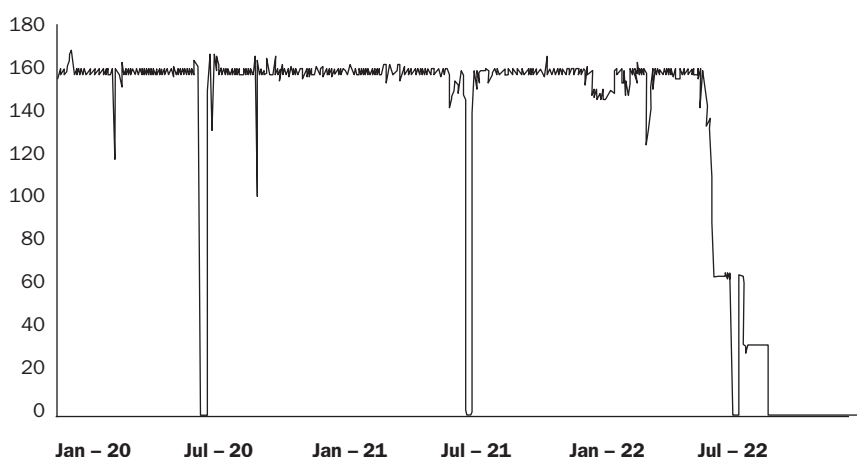
The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, further upside inflation surprises, the interest rate hikes introduced by central banks and the management of Covid-19 in China. All these factors resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. Covid-19 became less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus was gradually confirmed. In most countries, Covid-19 transitioned to an endemic phase, the main exception being China. Generally, 2022 was a very negative year for financial assets, both equities and fixed income.

Conflict in Ukraine

The war between Russia and Ukraine was one of the year's defining events for financial markets. Russia invaded Ukraine at the end of February. Early on in the war, Russia succeeded in occupying certain key regions in Ukraine, but after the summer Ukrainian troops made gains in a counteroffensive and were able to recover part of the occupied territory. Russia responded by annexing the regions occupied by its troops, holding referendums in those regions, and it threatened to use nuclear weapons. The response by Western countries to Russia's aggression was emphatic, as they agreed to impose unprecedented economic and financial sanctions on Russia and refused to recognise Russia's annexation of the occupied Ukrainian territories.

With regard to energy, Russia gradually reduced its gas supplies to Europe, eventually completely and indefinitely cutting off the flow of gas through Nord Stream 1, the pipeline that connects Germany and Russia, in early September. This fuelled fears that there would be strict energy rationing during the winter, with dire consequences for the European economy, and it also caused the price of natural gas to skyrocket to an all-time high. Against this backdrop, European countries took measures to reduce their energy dependence on Russia. They reduced their gas consumption and increased their imports of liquefied natural gas. This, together with an unusually mild autumn, allowed European countries to build up their gas reserves ahead of the winter to 100% capacity.

European countries also announced different measures designed to protect households and companies from the dramatic increase in the cost of energy. These measures notably included, among others, windfall taxes for energy firms, the proceeds of which will be used to compensate consumers, as well as price caps for gas and electricity.



G1 Russian gas flows through Nord Stream 1 (thousands m3/day). Source: Bloomberg.

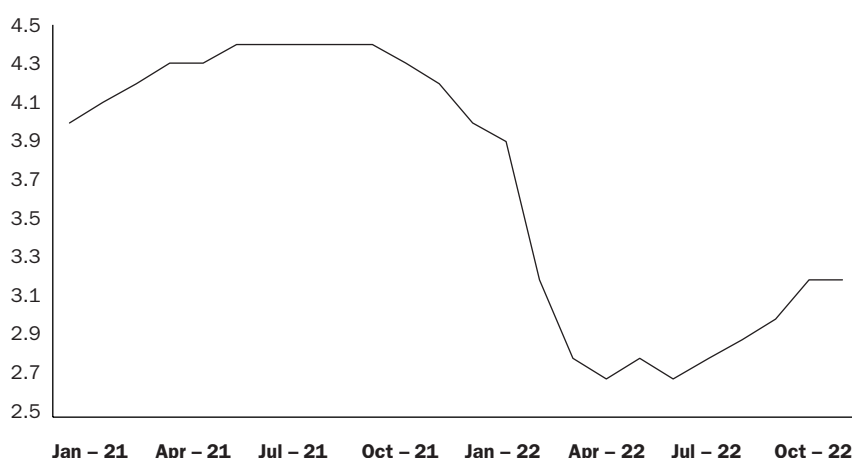
Economic activity and inflation

The global economy deteriorated over the year due to the consequences of the conflict in Ukraine, persistently high inflation and tighter financial conditions. The conflict mostly affected European countries due to their stronger links to Russia and their high energy dependence on the latter. The United States, for its part, proved more resilient to the consequences of the conflict, although activity in this country also began to drop as a result of interest rate hikes and high inflation.

In the Eurozone, activity was robust in the first half of the year, driven by the post-Covid economic reopening and tourism. In the latter part of the year, however, the

economy was weighed down by high energy prices, fears of energy rationing and tougher monetary policy. In the United Kingdom, activity also slowed during the year in reaction to higher inflation, interest rate hikes and the deteriorating confidence of households, with GDP contracting in the third quarter of 2022. In the United States, GDP performed poorly in the first half of the year, hampered by foreign trade and the accumulation of inventories, while consumption and the labour market remained steady. Domestic demand began to slow down significantly towards the end of the year, as a result of rapidly rising interest rates. This tightening also began to have a negative impact on the country's real estate sector.

The global economy deteriorated over the year, and many economies ended the year in a state of stagnation.

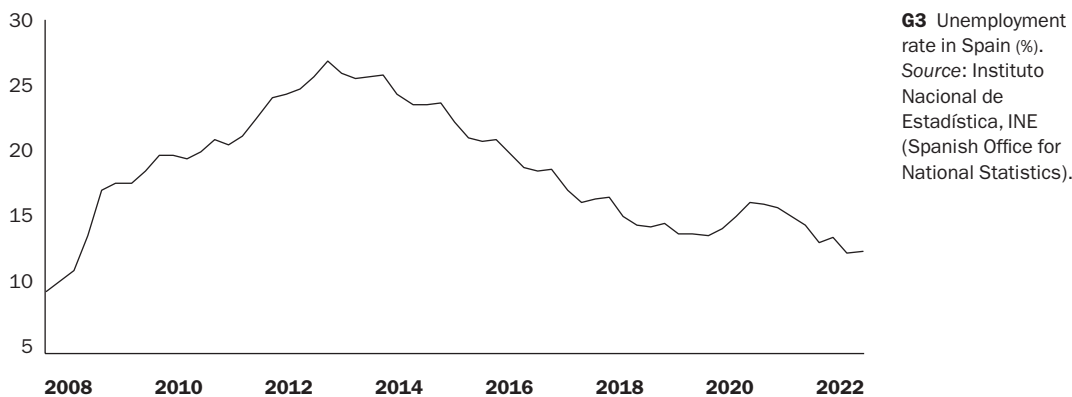


G2 Forecasts of economic growth in the Eurozone in 2022 (year-on-year change, %). Source: Consensus Economics.

In Spain, the start of the year was marked by the spread of the Omicron variant of the coronavirus. Although this did not result in the imposition of severe restrictions, it did have a negative effect on the confidence of economic operators and on activity. A little later in the year, the outbreak of war in Ukraine once again deteriorated economic sentiment and drove up the inflationary pressures that had begun to emerge in 2021. Nevertheless, the Spanish economy picked up throughout the second quarter of 2022 and the labour market in particular proved to be resilient, supported by the reopening of the economy and the recovery of tourism-related activities. In the third quarter of 2022, uncertainty affected lending, particularly lending to the construction sector, while the deteriorating situation of trade partners eroded the growth of exports. In spite of persistent inflation, private consumption performed well, supported by the government measures introduced to deal with the energy crisis and approved during the months following the outbreak of the war in

Ukraine. The labour market reflected the economic slowdown experienced in the third quarter of 2022, although it remained relatively steady in the last few months of the year, while the unemployment rate remained at its lowest level since 2008.

The Spanish economy proved relatively resilient, although it also suffered an economic slowdown.



Over the year, the Spanish government extended existing measures and rolled out new ones to deal with the energy crisis and the ensuing high levels of inflation. These measures notably included extensions of electric and thermal social bonds, an increase of the minimum living income, and a sector-based direct aid scheme for firms. Alongside these measures, taxes on electricity were reduced, fuel discounts were introduced and the ‘Iberian exception’ was launched, allowing Spain and Portugal to cap the price of the gas used to generate electricity.

In terms of economic policy, it is also worth mentioning the progress made in rolling out the Next Generation European funds. In 2022, calls for proposals for financial aid and tenders were published considerably earlier than usual, although the allocation and execution of these funds nevertheless fell short of the government’s expectations. By way of example, in one major tender process for strategic projects for economic recovery and transformation (*proyectos estratégicos para la recuperación y transformación económica*, or PERTE) relating to electric vehicles, only 30% of the available funds were ultimately allocated. In spite of this, the government continued to deliver on the milestones and reforms agreed with the European Commission to ensure it received the scheduled disbursements.

Emerging economies proved resilient to developments of the conflict in Ukraine, high inflation, rapid monetary tightening and the strength of the dollar. To a certain extent, this was because monetary tightening in these countries had begun earlier than in developed economies, which generally served to support emerging currencies. They also benefited from the increased price of commodities, as most of those countries are exporters of these products. However, risks remained in economies with weaker fundamentals.

In the case of China, the economy was entirely constrained by the zero-Covid policy. The lockdown

measures very evidently hampered activity and, as a result, economic growth fell considerably short of the Chinese government’s target. In light of the situation, the country’s authorities announced various different measures designed to support activity and, at the end of the year, after large-scale protests among citizens, the Chinese government practically abandoned its zero-Covid policy. In Mexico, economic activity was resilient to the consequences of the conflict, thanks to the country’s limited exposure to Ukraine. The country benefited from the trade war between the United States and China, which significantly boosted its trade and relations with the United States. Activity was also supported by the improvement of global supply chains, which in turn served to support the recovery of production and contributed to the sustained growth of consumption, driven by the high levels of savings accumulated during the pandemic, the sharp growth of remittances and the strength of the labour market. Mexico was able to recover pre-Covid GDP levels in the third quarter of 2022, much earlier than anticipated.

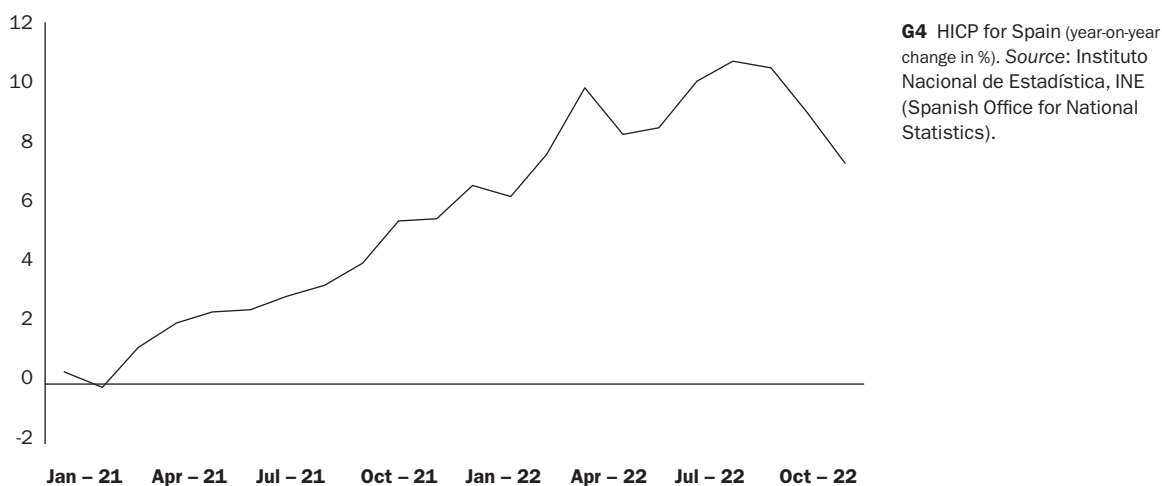
Inflation was the macroeconomic variable that aroused the most interest in 2022. For a good part of the year, inflation surprised to the upside, rebounding to its highest level in several decades in the main developed economies, while inflationary pressures became widespread across components. The conflict in Ukraine led to a surge of energy and commodity prices and new disruptions to some production chains, as a result of the sanctions imposed on Russia by Western countries. Global supply chains were also affected by China’s zero-Covid policy in the first half of the year.

Inflation was the macroeconomic variable that aroused the most interest in 2022, after reaching its highest level in decades.

In the Eurozone, inflation reached record-high levels, driven in particular by the price of energy and food, although inflationary pressures became increasingly widespread across components throughout the year. In the United Kingdom, inflation climbed to its highest level since the 1980s. The spike in prices of energy and transport was particularly severe, although significant price increases took place across the board. The substantial tightening of the labour market and the growth of wages, which went significantly beyond pre-Covid levels, also contributed to high inflation. In the same way, in the United States, inflation reached a four-decade high, with widespread inflationary pressures across components.

In addition, the strength of the labour market and the steady growth of wages served to rein in the growth of inflation, in spite of the significant monetary tightening implemented.

In Spain, inflation trended upwards until August, reaching its highest level since 1984. This increase in inflation was initially driven by higher energy prices, particularly those of electricity, which later filtered through to a wider range of products. Food prices also became significantly higher, while the recovery of tourism drove up prices in the third quarter of 2022. Inflation began to ease off in the last few months of the year due to base effects and reduced pressure on energy prices.



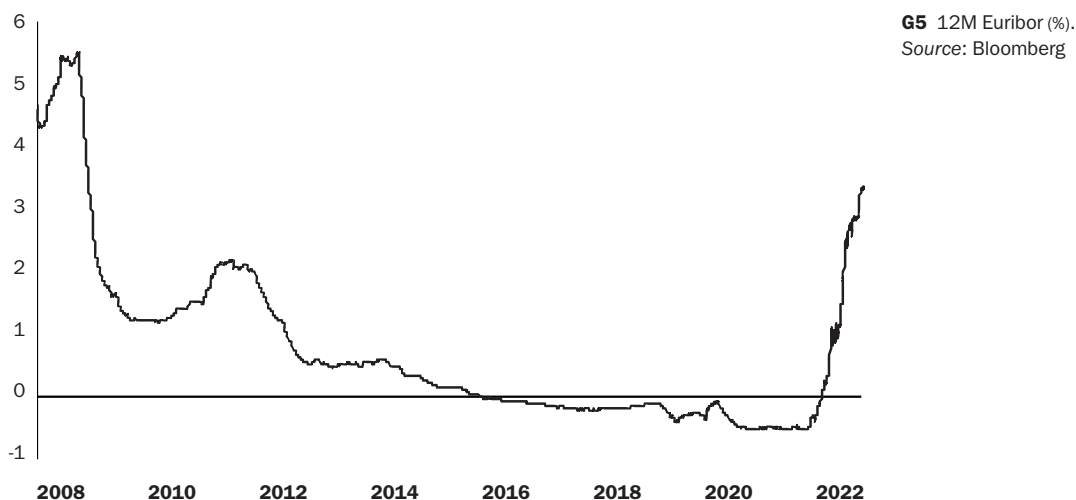
Monetary policy

Central banks focused more on tackling inflation and less on the signs of economic slowdown and slumps in financial markets. With that aim in mind, monetary authorities introduced widespread interest rate hikes, in line with the high levels of inflation.

The context of record high levels of inflation triggered widespread interest rate hikes.

In the Eurozone, the European Central Bank took significant steps to normalise its monetary policy. It increased interest rates by 250 basis points (thus far), bringing the deposit rate into positive territory for the first time since 2012. In fact, it implemented the largest interest rate hike

in its history (75 basis points) in two consecutive meetings. The European Central Bank also discontinued its asset purchase programmes and it announced that as of spring 2023 it would no longer reinvest all of the principal payments from maturing securities.



In the United States, the Federal Reserve (Fed) launched its most aggressive rate hike cycle in several decades, raising the Fed funds rate by 425 basis points to 4.25%-4.50% in just eight months, including four consecutive hikes of 75 basis points. The Fed also appeared intent on keeping interest rates at very restrictive levels for some time. In the meantime, halfway through the year, the Fed began its quantitative tightening process.

In the United Kingdom, the Bank of England (BoE), which had already begun its rate hike cycle in December 2021, raised rates in all of its monetary policy meetings of 2022, gradually increasing the scale of its rate hikes and giving rise to the most aggressive rate hike cycle of recent decades. The BoE also stopped reinvesting the proceeds of maturing bonds from its quantitative easing programme in March and began actively selling assets in November. Between September and October, the BoE was forced to make emergency interventions in the long-term public debt markets in order to safeguard financial stability and, more specifically, to indirectly help pension funds. This all took place following the sharp movements of government bond yields that took place upon the unveiling of the 'mini budget', which envisaged major tax cuts and ultimately led to the downfall of the government under Liz Truss.

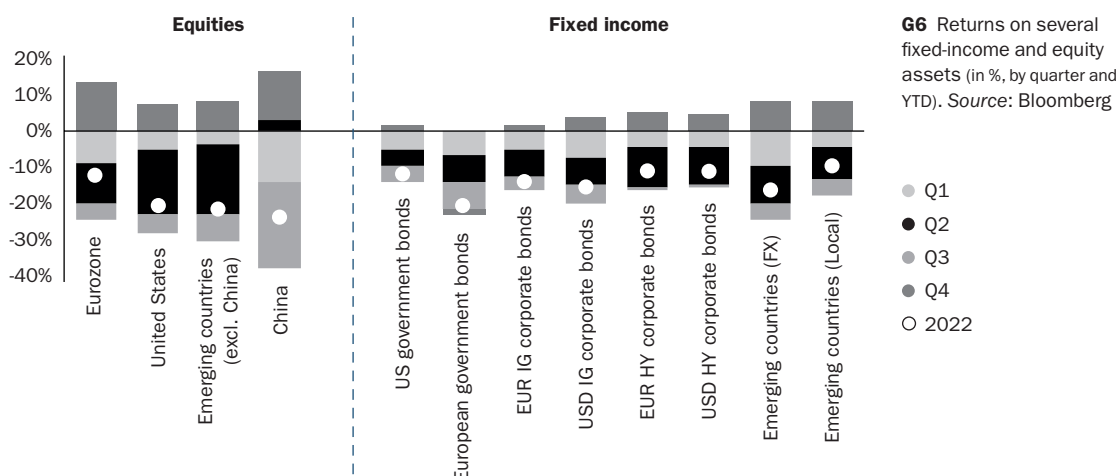
In emerging countries, aggressive and widespread rate increases continued in 2022. In the case of Mexico, the central bank (Banxico) continued with its rate hike cycle launched in 2021, accelerating the rate hikes and emulating the movements of the Fed. Banxico raised the official rate to 10.50%, accumulating 650 basis points of rate hikes in little more than a year. This level marked a new record and the most restrictive level since Banxico established its inflation-targeting scheme in 2008. In the meantime, in other emerging countries (such as Brazil and Colombia), central banks began to allude to an

imminent end of the restrictive cycle after raising interest rates to a 10-year and 20-year high, respectively. The main exceptions to this policy were China, whose central bank maintained an accommodative tone, easing liquidity reserves, using and creating new liquidity facilities and introducing measures to support business lending, and Turkey, whose central bank cut the official rate, disregarding the high levels of domestic inflation, which climbed to over 80%.

Financial markets

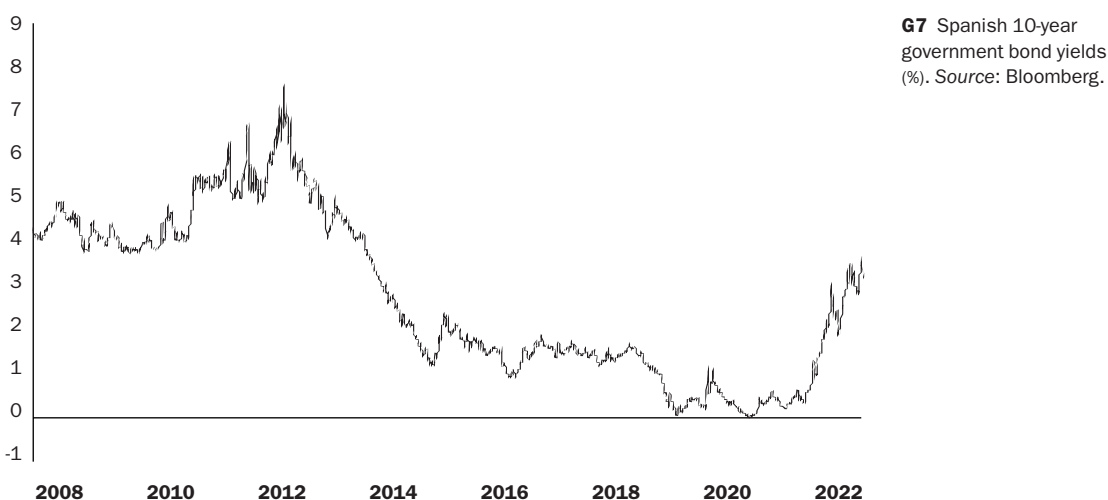
Financial markets were particularly hard hit by interest rate hikes across the globe and also by the conflict in Ukraine and the ongoing zero-Covid policy in China, all of which led to a considerable deterioration of economic growth forecasts. Most financial assets recorded heavy losses in 2022. The volatility of markets was particularly high due to the sharp repricing of official interest rates in the markets. Liquidity conditions and market depth fell to their lowest levels since the global financial crisis, which exacerbated market swings. Corporate and peripheral risk premiums recorded significant upturns, reaching levels not seen since the pandemic. The euro depreciated substantially against the dollar, to levels not seen since 2002.

Long-term government bond yields rebounded by more than 200 basis points on both sides of the Atlantic, reaching levels not seen since 2008 in the United States and since 2011 in Germany. This increase in bond yields was mostly driven by high inflation and the interest hikes introduced by central banks. In the United Kingdom, the unveiling of its most expansionary fiscal plan since 1972 triggered a major sell-off of UK gilts after the summer, which led to considerable liquidity problems in some pension funds and forced the BoE to intervene in the public debt market. This movement was almost fully reversed later, when Liz Truss resigned and Rishi Sunak, the new Prime Minister, announced a more orthodox fiscal plan.



Peripheral sovereign debt risk premiums also rebounded throughout the year, although they remained at contained levels. The spread's widening was influenced by the withdrawal of the ECB's accommodative measures, although the subsequent announcement of an asset purchase programme that could be activated in an emergency served to contain the rebound of premiums. In the case of Italy, the increase of the risk premium was also temporarily affected by the increased political noise resulting from the snap elections, which put an end to the government led by former ECB president Mario Draghi. The aforesaid elections were won by the centre-right coalition with Giorgia Meloni, of Brothers of Italy, at the helm. The

pro-European stance and the fiscal responsibility of the new Italian executive reduced uncertainty and put the financial markets at ease.



Regarding the currencies of developed countries, the dollar appreciated steadily to reach a multi-decade high. The US currency benefited from the aggressive stance adopted by the Fed, the energy crisis in Europe and concerns over global economic growth. In its currency pair with the euro, the dollar appreciated by 16%, reaching levels not seen since 2002. Later, China's abandonment of its zero-Covid policy and the ECB's interest rate hikes served to halt the

depreciation of the euro. The pound sterling, in its currency pair with the euro, gradually depreciated from the middle of the second quarter of 2022 onwards as the effects of inflation and rising interest rates on UK activity became increasingly apparent. The pound was also hit particularly hard, albeit briefly, by the mini-budget episode at the end of September.



G8 USD/EUR.
Source: Bloomberg.

Equity markets posted especially poor performance, weighed down by the sharp interest rate hikes and negative news regarding the conflict in Ukraine, as well as forecasts of global economic growth. The majority of global stock indices posted heavy losses in 2022. For instance, the Stoxx 600 tumbled by almost 13% compared to the end of the previous year (although its largest decline saw it plunge by more than -20%), while the S&P 500 posted a 19% correction (having fallen in excess of -25%). These were the greatest losses recorded in a single year since 2018 and 2008, respectively. The IBEX 35, which had already been trailing in the previous year, recorded a smaller decline of -5.6% in 2022.

In the financial markets of emerging countries, sovereign risk premiums climbed slightly in response to fears of a global recession as a result of the sharp tightening of financial conditions, but they remained far from their peaks. Domestic bond yields rebounded to their highest in several decades. The fact that monetary tightening in emerging economies had begun earlier than in developed economies generally served to support emerging currencies. The Mexican peso proved even more resilient than other emerging currencies, thanks to the interest rate hikes introduced by Banxico.

Cryptoassets, for their part, continued to move further into the spotlight given the dramatic collapse during the year of several key players in this ecosystem. It is particularly worth mentioning the downfall of stablecoin TerraUSD in May, which caused important hedge funds such as Three Arrows Capital and the Celsius platform to file for bankruptcy, in addition to the collapse of the fourth largest cryptocurrency exchange platform in the world, FTX, in November, which also ended up filing for bankruptcy after trying and failing to secure a bailout by

other platforms. These events, together with the interest rate hikes implemented by central banks, resulted in plummeting quoted prices across several cryptoassets in 2022. Fortunately, the impact of these events remained contained within the crypto ecosystem and did not spill over into the traditional financial system, partly because the supply of financial services in the crypto ecosystem was fairly small and partly because the interconnections between both systems were still fairly limited. In any event, the authorities warned that it is vital that cryptoassets be regulated, as these could grow very rapidly and the interconnections with the traditional financial system could increase and even pose a systemic threat to financial stability.

Financial sector environment

Banking industry environment

In relation to the global banking industry, the outbreak of war in Ukraine prompted some banks with greater exposure to Ukraine and Russia to reduce their exposure to these countries and increase provisions although, in general, the overall exposure of international banks to these economies was small to begin with. Over the year, banks generally maintained adequate levels of capitalisation. In the main developed economies, CET1 ratios remained above the minimum levels required by regulations and, according to the authorities, they were expected to continue that way even in an adverse scenario. The interest rate hikes implemented by central banks had a positive effect on banks' results, in spite of the fact that

as interest income increased, funding costs also became more expensive. The profitability of the banking industry surpassed pre-pandemic levels. In terms of liquidity, TLTRO III funds continued to provide considerable support,

although the ECB's announcements regarding tougher conditions of TLTROs led to banks making plans to repay the amounts borrowed early, requiring them to make changes to their funding structures going forward.

The global banking sector remained robust and benefited from the end of negative interest rates, in an environment which did not bring about credit portfolio impairment.

Arrears during the Covid crisis did not perform as they typically do in a recessionary cycle, thanks, among other things, to the swift and decisive response of economic policy. The aggregate NPL ratio in the Eurozone fell during the first nine months of 2022 to 1.8%, while in Spain it dropped to 2.7%. The inflow of loans under special monitoring (stage 2) was moderate during the year. In spite of resilient asset quality, the exposures to certain businesses in the sectors hardest hit by the spike in energy prices recorded a degree of impairment. In terms of provisions, the authorities continued to advise caution in the face of the rebound of inflation and the expected deterioration of economic activity. They also stressed that the behaviour of arrears during Covid-19 should not be seen as a reference and that, in the current environment, in particular bearing in mind the interest rate hikes, there was a risk that arrears might rebound in the future.

With regard to the Spanish banking industry, the Bank of Spain (BoS) signalled that banks are facing the current environment (of economic slowdown, high inflation and extraordinary uncertainty) with solvency levels greater than those they had prior to the pandemic, in addition to lower NPL ratios. It also highlighted the fact that profitability was back to pre-pandemic levels (ROE was 10.5% up to September 2022) and that cost of capital was above average (7%). Furthermore, institutions' level of capital exceeded the level observed prior to the pandemic. However, the current environment increases the risks of credit impairment and of further tightening of financing conditions. The Bank of Spain warned that a greater portion of the benchmark rate hikes would likely be passed through to the cost of deposits, and that the payment capacity of households and firms would be affected by increased borrowing costs and the slowdown of their income, which could push up banking costs in terms of impairment allowances. It therefore recommended adopting a prudent policy for provisioning and capital planning to enable the increase in profits that is taking place at present to be used to build up the resilience of the industry so that it may be better equipped to deal with any losses that occur in the medium term as a result of the negative development of economic growth.

Financial stability and macroprudential policy

Throughout 2022, financial authorities declared that the risks to global financial stability had been increasing due to the high geopolitical risk, generating considerable uncertainty, in addition to the risks of higher inflation and the risk of an economic recession. They also showed concern over higher interest rates, which contributed to a substantial toughening of financial conditions and which could impact on the private sector's ability to service its debt. Furthermore, falling asset prices and volatile markets, together with future shocks, all have the potential to amplify the vulnerabilities associated with asset valuation, borrowing by households and firms, leverage in the financial sector and funding risks.

The financial authorities stated that risks to financial stability were heightened by the geopolitical and economic context.

The considerable growth of the non-bank financial sector (NBFS) in recent years and the absence of a complete regulatory framework continued to open the door for the accumulation of vulnerabilities in this sector. These structural vulnerabilities and the interconnections between the NBFS and the banking industry pose a risk to financial stability. Various episodes throughout the year revealed the sensitivity of the NBFS to shocks (e.g. pension funds in the United Kingdom). Throughout 2022, the authorities showed particular concern over certain open-ended investment funds, which had accumulated risk exposures in recent years and whose liquidity positions were very tight. Even though investment funds in Spain had more comfortable liquidity positions, the authorities believed that Spanish investment funds and Spanish banks could both be affected by the exposures and corrections in these segments where the risks had accumulated. The progress made both on a global scale and in Europe with the development of a regulatory and macroprudential framework for this sector was scant in 2022.

In Europe, the authorities continued to express their concerns over the impact that a sluggish mortgage market was having on the financial stability of certain countries, although towards the end of the year they believed that there were signs that the trend was starting to change in this sector. In the residential segment, this concern centred around countries with pre-pandemic vulnerabilities in that sector (e.g. Germany), while in the commercial segment the focus was placed on the lack of recovery of lower quality assets. Against this backdrop, the ECB recommended that national authorities adopt macroprudential policies in the real estate sector.

Covid-19 presented a challenge for macroprudential policy, which also complemented fiscal and monetary policies. The review of the framework on a European scale, which may well be completed in 2023, could result in a recalibration of capital buffers. At the same time, several countries have started to rebuild their released capital buffers, to ensure they have room for manoeuvre should downside risks materialise and in the event the economies require support from the financial sector. The United Kingdom, France and Germany announced that they were increasing their countercyclical capital buffer (CCyB) by between 0.5% and 1%. In Spain, the CCyB was kept at 0%, as the BoS believed that the imbalances were contained and the activation of the CCyB could become pro-cyclical and slow lending.

Banking Union and Capital Markets Union

The progress made in the area of European integration was limited in 2022, in a context of war in Ukraine and amid a spike in energy prices and inflation. Efforts were put towards taking measures to mitigate the impacts of the current environment.

The Eurogroup meeting of June 2022 culminated in an agreement to work on completing the Banking Union. It was agreed that an immediate step would be to strengthen the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework). Subsequently, action would be taken to review the state of the Banking Union and identify in a consensual manner possible further measures with regard to the other elements of the Banking Union. The European Deposit Insurance Scheme (EDIS) has been shelved for now. The Eurogroup also reiterated its commitment to making progress on the Capital Markets Union.

Despite the temporary standstill in European banking integration, financial authorities in the region stated that they believed that further progress should be made on European financial integration and they highlighted the positive effects of cross-border mergers.

Challenges for the banking industry

Sustainability was a prominent feature of supervisory agendas in 2022. The results of the ECB climate stress test showed that the majority of banks still had no climate risk stress testing framework in place and there were many that had not yet included climate risk in their credit models and still more that did not consider climate risk as a variable when granting loans. They also called attention to the high level of dependence that banks have on the income from greenhouse gas-intensive firms, the heterogeneous impact of physical risk across banks in the Eurozone and the lack of robust strategies to deal with transition risks. The results had no direct impact on capital requirements. In a separate exercise, the ECB also reviewed banks' level of compliance with supervisory expectations. The results showed that banks still did not adequately manage climate and environmental risks in the manner required by the ECB. The ECB consequently set staggered deadlines for banks to progressively meet the expectations set out in its Guide by the end of 2024. In the United States, the Fed announced that it would

be carrying out a pilot climate scenario analysis exercise involving large banks in 2023. The data regarding climate risks continued to be one of the key challenges of 2022 and, although progress was made with regard the disclosure of information, there was still plenty of room to improve transparency.

Some progress was made on the regulatory agenda on climate risks, but more intensive action will be taken in 2023, when the European Banking Authority is due to publish its final report on the role played by climate risks in the prudential framework, and the first drafts of European and global standards for sustainability disclosures will be released.

Digitisation processes continued at an increasingly fast pace, giving rise to several focus areas. On one hand, in spite of the entry of Bigtech in the financial services sector and despite the banking industry's reiterated calls for regulations that adhere to the principle of "same activity, same risk, same regulation", the progress made in this regard was very limited. Another topic that caused considerable concern was the proliferation of cyberattacks, which were becoming more frequent and more severe.

On the regulatory topic of digitalisation, significant progress was made, with the release of the European regulation on markets in cryptoassets (MiCA), the final approval of which is expected imminently, as well as the Basel Committee's prudential treatment of cryptoasset exposures by banks, which will be favourable only for tokenised traditional assets and for suitably backed and regulated stablecoins. In any event, the regulatory developments in this regard continue to be scant and more effort is urgently needed to regulate these exposures on a global scale.

Regarding the digital currencies of central banks, projects were gradually implemented, especially in China and the Eurozone, while implementation was still in its early stages in the United States. In particular, the ECB publicly disclosed some of the features being considered for the design of the digital euro, such as a cap or ceiling on individual holdings and the need to make it attractive enough that economic operators will adopt it, but at the same time ensuring it does not threaten the viability of other private innovations. Significant progress was also made with research projects on the possibilities of interoperability between the digital currencies of the different central banks, in large part led by the Bank for International Settlements (BIS).

Outlook for 2023

Increased concern over economic growth should be expected in 2023. Once the impact of recent events (energy crisis and rate hikes) starts to gradually materialise, economic stagnation is expected to return and economic figures in certain countries may even be negative for several quarters. The Eurozone and the United States may experience a mild economic recession. Conversely, the economic reopening of China will serve to support global activity. The landscape will be particularly complex for emerging countries due, among other factors, to high interest rates.

Inflation could remain at high levels for much of 2023 due to the energy crisis in Europe and specific domestic factors in the United Kingdom and the United States, such as the situation with regard to labour markets and salaries. Inflation expectations will remain firmly anchored thanks to the response of central banks.

In terms of economic policy, central banks will likely maintain an orthodox stance and, given the high level of inflation, they will probably set and keep interest rates at levels above monetary neutrality and move ahead with their balance sheet reduction policies.

With regard to financial markets, financial conditions are expected to remain tight based on what was observed in 2022. In any event, long-term government bond yields are expected to be more stable, although they will also be affected by the increased scrutiny of economic growth. Peripheral countries' risk premiums could remain at relatively contained levels.

Spain would be in a more safeguarded position than the rest of Europe in this environment and its experience could therefore be relatively more favourable. The three main pillars of growth would be the robust balance sheets of economic agents (households and companies), the return to a normal growth momentum of the sectors hardest hit by the pandemic (such as tourism) and the use of the Next Generation European funds. The government measures introduced to counteract the energy price increase could also support economic activity.

Within the financial environment, further progress is expected on the global regulatory framework for activities linked to cryptoassets.