Inflation across the euro area has rapidly increased since early 2021, standing at multi-year highs in the first quarter of 2022 in most Member States, including Spain. This increase results from an unparalleled sequence of adverse global supply shocks, namely the pandemic and the military aggression of Russia against Ukraine, which led to supply disruptions and a surge in commodity prices.

Internal inflation differentials are a common feature of large monetary unions, including when the external drivers of prices are common. For example, while inflation of Spain has exceeded that of the euro area as a whole since early 2021, it was persistently below it since late 2018.

The large cross-country variation in energy inflation reflects differences in the magnitude and speed of transmission of oil and natural gas prices to retail prices of fuel, gas and electricity. This in turn depends on a country’s energy mix, price regulation and share of long-term contracts, among other factors. Around 40% of the domestic consumers of electricity in Spain have regulated price contracts. This type of contract is more sensitive to the impact of large-scale or long-lasting shifts in wholesale market prices. A faster escalation of electricity prices in Spain has contributed to differences in the inflation rate with the euro area in recent times.

The Spanish Government has adopted several measures to contain energy prices, which should contribute to a gradual easing of energy price inflation. The Commission Spring Economic Forecast published on 16 May 2022 projects annual inflation in Spain of 6.3% in 2022, close to the projected euro area rate of 6.1%. In 2023, Spain’s annual inflation rate is projected to decline to 1.8%, below the euro area rate of 2.7%.

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1 PVPC: Voluntary Price for the Small Consumer.
2 The Spanish Statistical Office is currently revising its methodology to measure consumers’ prices, as the households’ sample they use only includes households with this type of contract.

https://ine.es/prensa/comunicado_02022022.pdf