

This box sets out an update of the Spanish macroeconomic projections for the period 2014-2015, prepared by the Banco de España as part of the joint Eurosystem forecasting exercise.¹ They have been adapted to include several changes made since that exercise was completed, including most notably the publication by INE of the new Quarterly National Accounts (QNA) series using ESA 2010 methodology on 27 November. The changes to the assumptions since the cut-off date of the joint exercise have also been included, especially in view of the sharp drop in the price of oil (see Panel 1).²

The results of the update show that Spanish GDP can be expected to continue to expand over the projection horizon, with estimated GDP growth of 1.4% and 2% in annual average terms in 2014 and 2015, respectively (see Panel 2). In comparison with the forecasts published in July, the GDP growth estimate for 2014 has been raised by 0.1 pp, as a result of the inclusion of the new QNA series and the slight upward revision of the GDP flash estimate for Q4. The GDP growth projection for 2015 remains unchanged, although the individual components have been revised significantly, in a setting where the recent positive employment trend is expected to continue and a further improvement in financing conditions for the private sector is projected, prompting an upward revision of the path forecast for private national demand. Conversely, a worsening of the external environment has been factored into the projections, reflected in a downward revision of expected export growth.

As indicated, one notable aspect of the external assumptions underlying the projections is the weaker performance of Spanish export markets in comparison with the July forecast, in view of the worsening international economic outlook since the summer, especially in the euro area. The exchange rate assumptions reflect a depreciation of the euro against the dollar that was not envisaged in July, while the oil price has been revised down significantly, in step with its performance on the spot and futures markets. Three-month Euribor interest rates have remained stable, at minimum levels, while 10-year government debt yields, in view of the expectations implicit in the yield curve, have been revised down in comparison with the July assumptions, to 2.8% and 2.4% in 2014 and 2015, respectively. Additionally, the gradual decline in the cost of financing extended to households and firms in 2015 is projected to be somewhat more substantial than that foreseen in July.

The budget policy projections include the fiscal measures approved since the last biannual forecasting exercise in July. In particular, they incorporate the information on the 2015 Budget Plan outlining the overall general government fiscal policy strategy for 2015 and providing partial information on the link between that strategy and the budget plans of each tier of government.

The projected path of GDP growth is underpinned by a relatively large contribution from domestic demand (of approximately 2.2 pp in both 2014 and 2015), while net external demand is expected to make a negative contribution [that is significantly larger in 2014 (-0.8 pp) than in 2015 (-0.2 pp)]. The positive contribution from domestic demand would be based on continuing high levels of confidence among domestic agents, underpinned, in turn, by employment generation, improved aggregate financial conditions and, in 2015, the impact of the tax reform due to enter into force on

- 1 The aggregate projections for the euro area were submitted to the ECB's Governing Council on 4 December and published by the ECB a day later.
- 2 The projections were prepared based on information available up to 15 December.

1 INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

Annual rates of change, unless otherwise indicated

		Current projection		July 2014 projection	
	2013	2014	2015	2014	2015
International environment					
World output	3.2	3.3	3.7	3.2	3.8
Global markets	2.8	2.9	4.0	4.8	6.0
Spain's export markets	2.2	2.5	3.4	3.8	5.1
Oil price (in USD)	108.8	99.5	68.0	108.8	107.0
Competitors' export prices in euro	-2.1	-1.0	1.6	-1.2	1.4
Monetary and financial conditions					
Dollar/euro exchange rate	1.33	1.33	1.24	1.37	1.36
Short-term interest rate (3-month EURIBOR)	0.2	0.2	0.1	0.2	0.2
Long-term interest rate (10-year bond yield)	4.6	2.8	2.4	3.0	3.2

SOURCES: ECB and Banco de España.

a Projections cut-off date: 15.12.2014.

1 January. In particular, household consumption is expected to grow by 2.3% in 2014 and by 2.6% in 2015, against a background of improvement in the labour market, which will be conducive to a recovery in household disposable income. Private productive investment is projected to continue to expand, driven by the increase in domestic demand, the gradual improvement in financial conditions, the need for a growing proportion of businesses to replace part of their capital and the expected growth of exports. However, the latter is now projected to be more moderate than in the summer, as a consequence of the poorer outlook for some emerging markets and for the euro area, this being partly offset by the depreciation of the euro. In this setting, the net lending of the economy is projected to be 0.5% of GDP in 2014 and 1.1% in 2015.

In the labour market, the sustained employment creation observed in recent quarters is projected to continue, underpinned by ongoing wage moderation and greater labour market flexibility. The expected rate of increase in net jobs is somewhat higher than in the July projections. This increase in employment, along with the contraction in the labour force, will lead to a further decline in the rate of unemployment.

The forecasts for consumer price growth have been revised down significantly owing to the sharp fall in the price of oil on international markets in recent months. In addition, the high degree of slack still present in the economy and the moderate behaviour of wage costs should also help to keep prices contained. Given these

factors, consumer price inflation is expected, on current assumptions, to remain at negative rates during the initial quarters of the projection horizon. In terms of the GDP deflator, prices may fall by 0.4% in 2014, and then rise slightly in 2015, with average growth during the year of approximately 0.4%.

The baseline scenario is subject to risks of divergence in both directions. As regards the external environment, export market developments may be more unfavourable than projected, given the scenario of fragile euro area growth and the uncertainty over the extent of the slowdown in some emerging market economies, in particular those which, owing to their producer status, are suffering revenue losses as a result of oil price developments. On the other hand, an improvement in financial conditions, linked to the extraordinary monetary policy measures adopted recently and the potentially positive impact on credit supply conditions of the comprehensive assessment of the banking sector completed in October, along with a further decline in oil prices and the euro exchange rate relative to the hypothesis implicit in these projections, could lead to more positive GDP developments. With regard to prices, the risks of divergence from the baseline inflation scenario are skewed somewhat downwards, as a consequence of the persistently high degree of slack and the possibility that oil prices may fall even further than assumed for this exercise. Nonetheless, there are some potential sources of upward divergence, which may partly offset the disinflationary effect of the above factors, such as a sharper depreciation of the euro.

2 PROJECTION OF THE MAIN MACROECONOMIC AGGREGATES OF THE SPANISH ECONOMY (a)

Annual rate of change in volume terms and % of GDP

	2013	Current projection		July 2014 projection (b)	
		2014	2015	2014	2015
GDP	-1.2	1.4	2.0	1.3	2.0
Private consumption	-2.3	2.3	2.6	1.6	1.6
Government consumption	-2.9	0.7	-1.6	-0.8	-1.5
Gross fixed capital formation	-3.8	2.8	5.2	1.8	4.2
Investment in capital goods and intangible assets	5.6	11.8	8.0	8.7	7.7
Investment in construction	-9.2	-2.7	3.4	-3.2	1.7
Exports of goods and services	4.3	4.3	4.6	4.6	5.9
Imports of goods and services	-0.5	7.5	5.6	4.7	4.5
National demand (contribution to growth)	-2.7	2.1	2.2	1.2	1.4
Net external demand (contribution to growth)	1.4	-0.8	-0.2	0.1	0.6
GDP deflator	0.7	-0.4	0.4	-0.1	0.6
Employment (full-time equivalent jobs)	-3.3	0.8	1.6	0.4	1.4
Nation's net lending (+)/net borrowing (-) (% of GDP)	2.1	0.5	1.1	1.3	1.6

SOURCES: Banco de España and INE.
Latest QNA data: 2014 Q13. Base 2010 figures.

a Projections cut-off date: 15.12.2014.

b The July projections were made on the basis of ESA 95 (base 2008) series.