

MACROECONOMIC PROJECTIONS FOR SPAIN 2019-2022

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➤ **GDP growth projections did not change appreciably with respect to the September exercise:**

- The latest short-term indicators tend to confirm a **performance of activity in the current quarter similar to that projected in September**, which entails a stabilisation of GDP growth with respect to the preceding quarter
- Over a longer horizon, **there are slight changes to the assumptions of the forecasting exercise**, with very minor effects which offset one another
 - **Downward revision of external market growth** 
 - **Slightly higher interest rates** 
 - **Lower oil prices** 
 - **Slight depreciation of the euro** 
 - **Changes in fiscal assumptions** 

THE EXPANSIONARY PHASE WILL EXTEND OVER THE NEXT FEW YEARS (2)

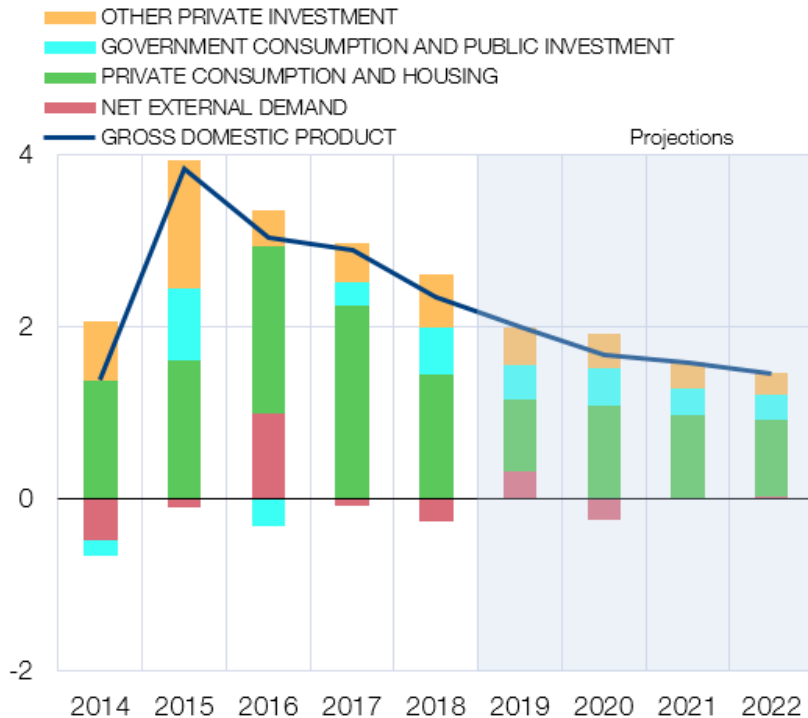
Annual rate of change (%)	2018	December 2019 Projections				September 2019 Projections			Revisions (pp)		
		2019	2020	2021	2022	2019	2020	2021	2019	2020	2021
GDP (real)	2.4	2.0	1.7	1.6	1.5	2.0	1.7	1.6	0.0	0.0	0.0
Employment	2.5	2.0	1.3	1.4	1.2	1.8	1.3	1.5	0.2	0.0	-0.1
HICP	1.7	0.8	1.2	1.4	1.6	0.8	1.1	1.5	0.0	0.1	-0.1
Underlying HICP	1.0	1.1	1.4	1.5	1.7	1.1	1.4	1.6	0.0	0.0	-0.1

Projections cut-off date: 27 November.

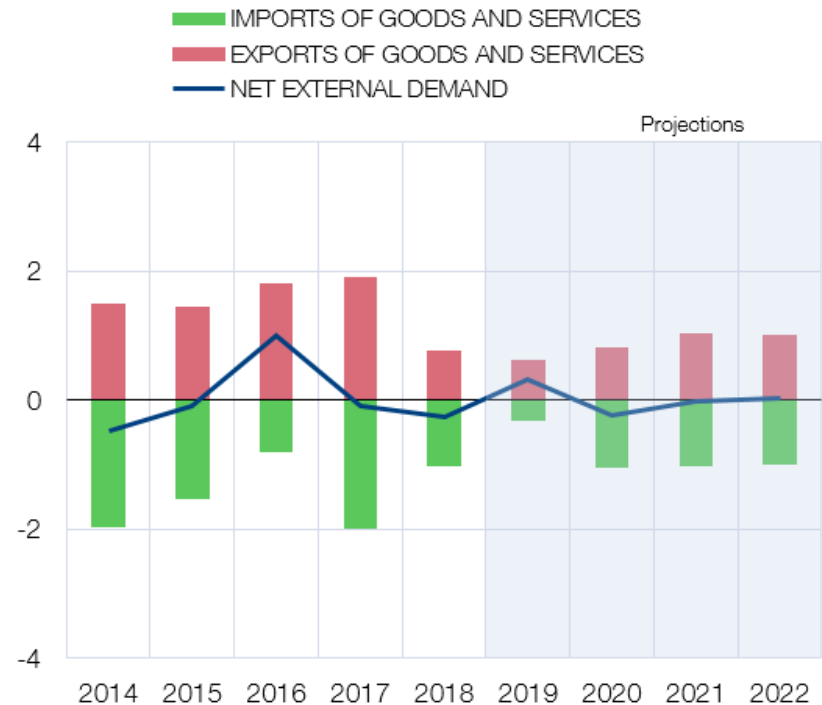
GROWTH WILL CONTINUE TO BE UNDERPINNED MAINLY BY DOMESTIC DEMAND

- **The contribution of external demand to growth will be neutral over the projection horizon**

GDP GROWTH (%) AND CONTRIBUTIONS (pp)



NET EXTERNAL DEMAND AND CONTRIBUTIONS (pp)

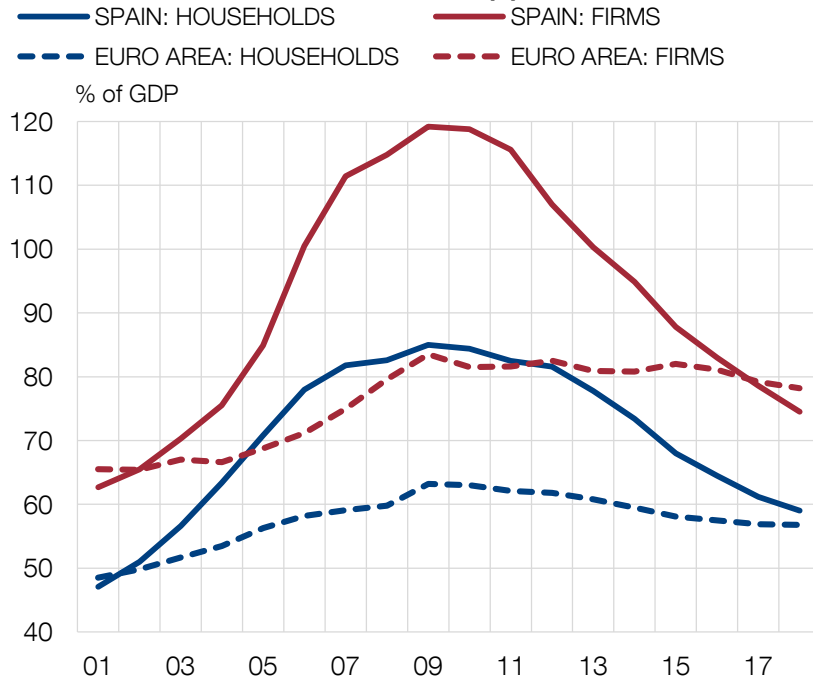


Sources: Banco de España and INE.

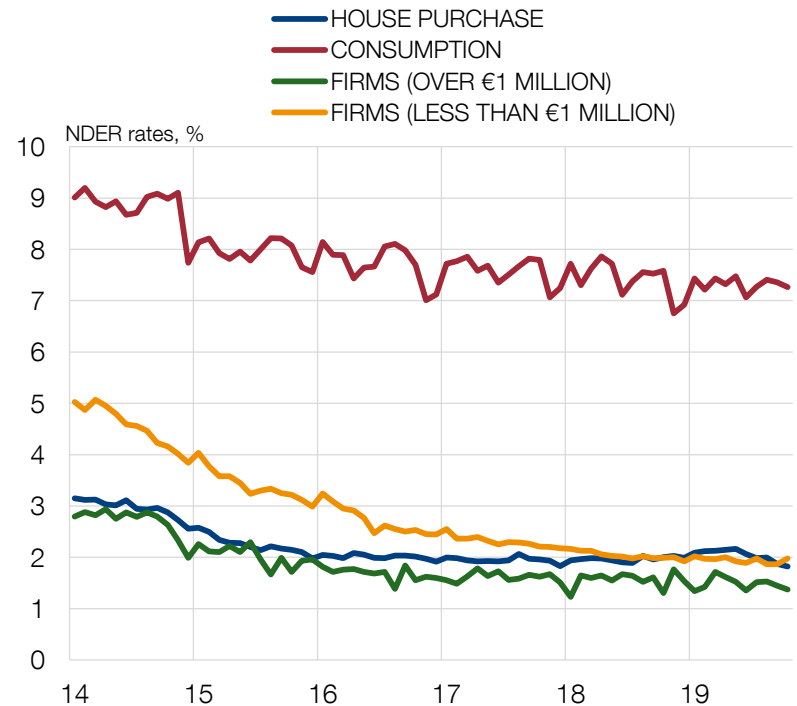
THE BUOYANCY OF DOMESTIC DEMAND WILL BE UNDERPINNED BY THE STRENGTH OF ITS FUNDAMENTALS

- **Sound financial position of households and firms**, following the intense deleveraging process and recovery of income over recent years
- **ECB accommodative monetary policy stance**, strengthened by the measures adopted in September. These will contribute to continuing easy financing conditions [See Box 4]

DEBT OF HOUSEHOLDS AND FIRMS IN SPAIN AND THE EURO AREA (a)



INTEREST RATES ON NEW LENDING TRANSACTIONS

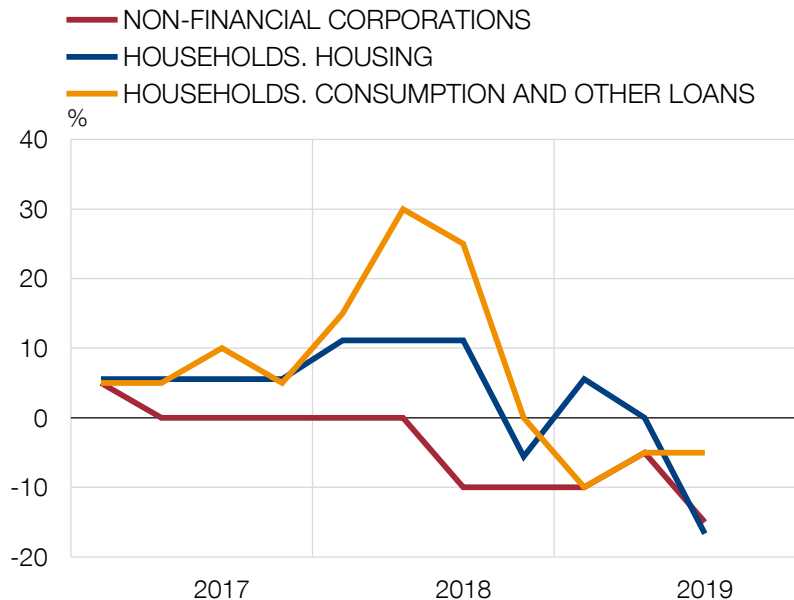


Sources: Banco de España, Eurostat and INE. (a) The debt of firms relates to securities issued and loans in consolidated terms.

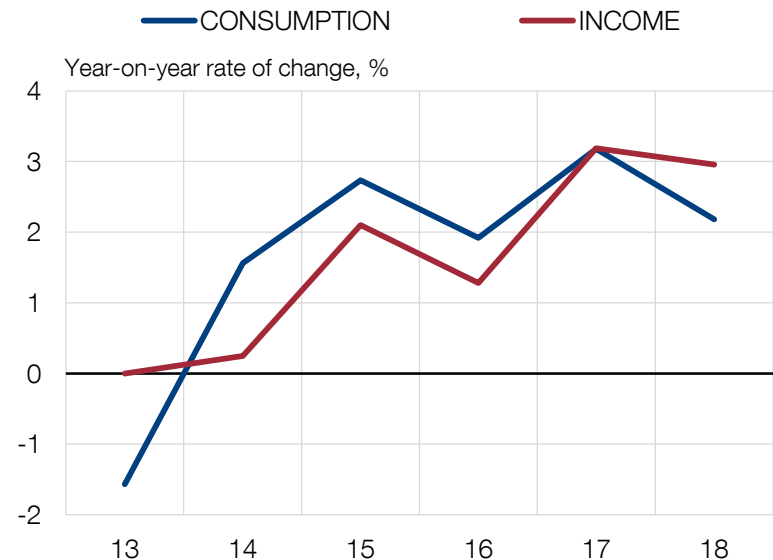
GDP GROWTH WILL GRADUALLY MODERATE OVER THE PROJECTION HORIZON

- **This slowdown would be consistent with gradual convergence by the economy's growth rate to its potential growth rate**
- **Some recent indicators seem to point in this direction:**
 - **As regards household consumption:** weakness in the demand for loans, rebound in the saving rate and possible completion of the process of absorption of the pent-up demand for durable goods accumulated during the crisis [See Box 6]
 - **As regards business investment:** diminished buoyancy of profit margins and final demand [See Box 5], persistence of several sources of uncertainty

CHANGE IN DEMAND FOR BANK LOANS



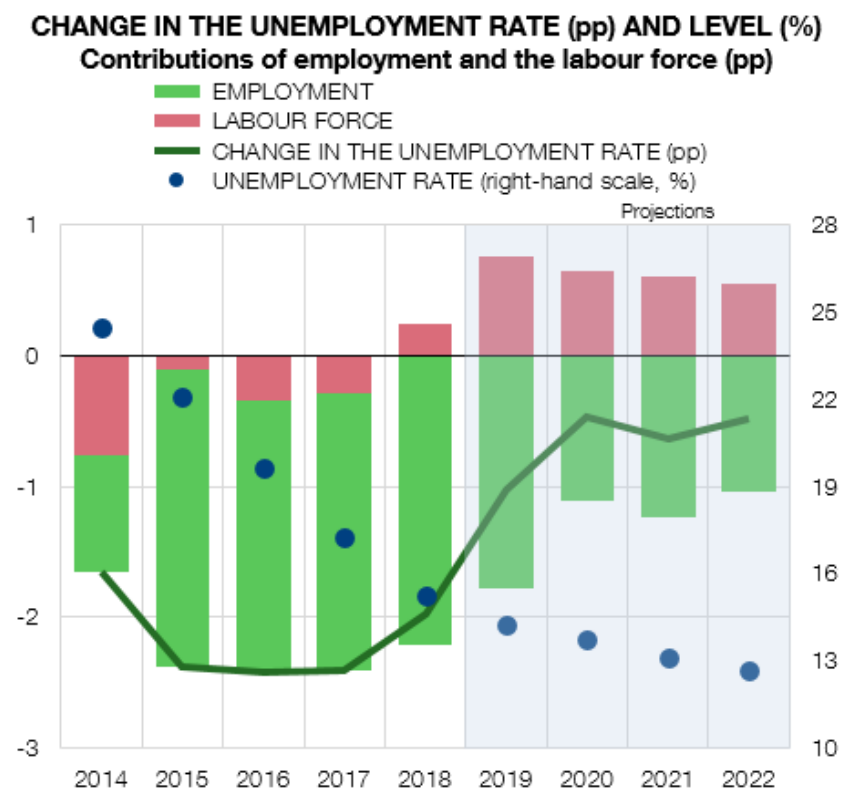
CONSUMPTION AND INCOME OF HOUSEHOLDS WHERE THE NUMBER OF EMPLOYED PERSONS REMAINED UNCHANGED



Sources: Banco de España and INE. Latest observation: 2019 Q3 (left) and 2018 (right).

THE LABOUR MARKET IS PROJECTED TO BE LESS BOUYANT

- **The pace of employment growth is expected to remain in line with the growth of activity**, leading to modest increases in apparent labour productivity
- In any event, **the increase in employment will enable the unemployment rate to continue falling** (albeit at a lesser pace than in previous years), despite the increase in the labour force

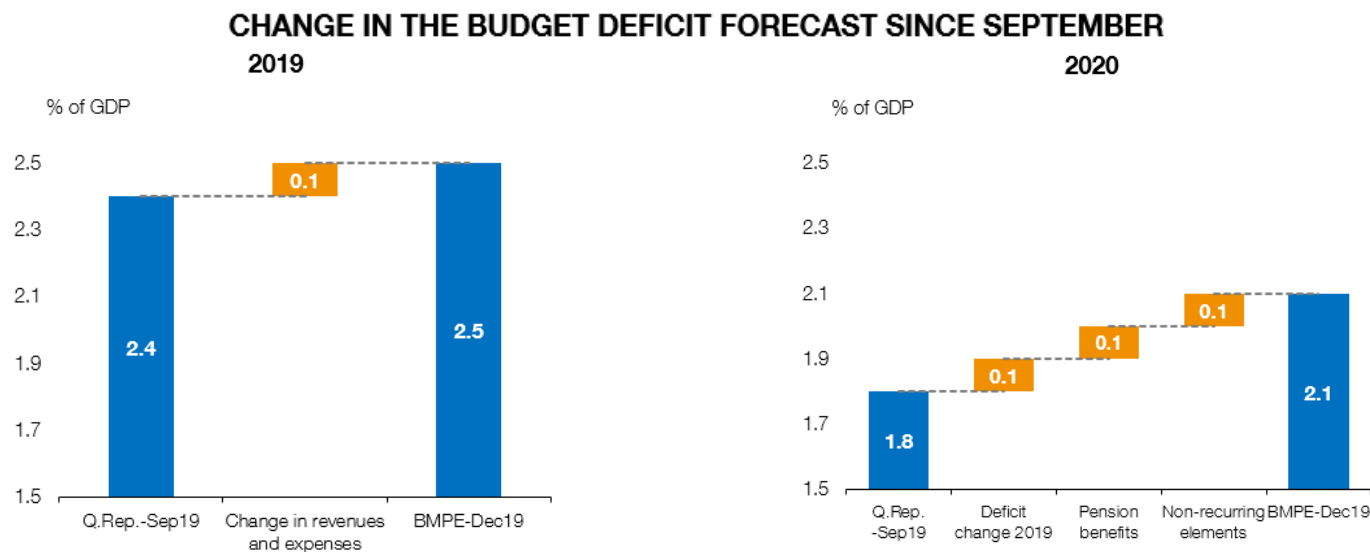


Sources: Banco de España and INE.

THE BUDGET DEFICIT WILL GRADUALLY BE CORRECTED, ALTHOUGH ITS PATH IS REVISED UPWARDS OVER THE PROJECTION HORIZON

- In the next three years **it is expected that the favourable effects of the economic cycle and the environment of low funding costs will continue to contribute to reducing the budget deficit**, the structural balance of which will not post significant changes
- **Upward revision of the budget deficit path: +0.1pp (2019) and +0.3pp (2020 and 2021)**, owing to:
 - **2019:** recent performance was worse than expected, owing to lower revenues (partial corporate income tax payment in October) and greater expenses (compensation and benefits)
 - **2020-21:** indexation of pensions to the CPI (**change in assumption**) and non-recurring elements (in 2020)

All of this in a setting of budget extension



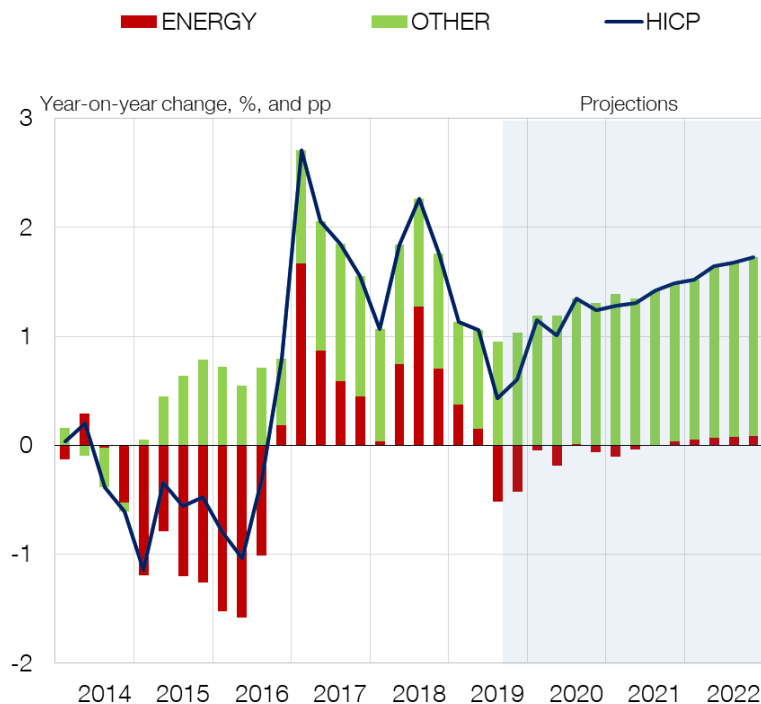
Source: Banco de España,

INFLATION WILL SHOW AN UPWARD TREND AS A RESULT OF THE PROGRESSIVE WIDENING OF THE OUTPUT GAP

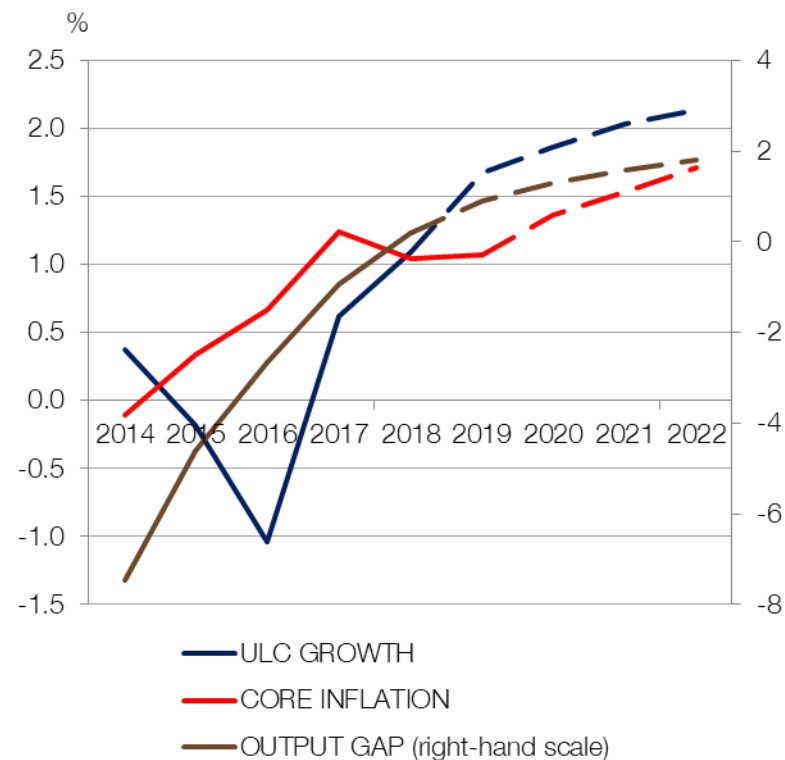
➤ **Overall inflation is expected to rise gradually over the projection horizon to 1.6% in 2022, as a result of:**

- a less negative contribution from energy prices,
- and higher core inflation, associated mainly with a widening of the positive output gap and the growth of unit labour costs.

OVERALL INFLATION AND CONTRIBUTIONS



OUTPUT GAP, ULCs AND CORE INFLATION



Sources: Banco de España and INE.

THE BASELINE SCENARIO OF THESE PROJECTIONS IS SUBJECT TO DOWNSIDE RISKS

Activity

➤ In the external environment:

- Despite the recent signs of stabilisation of activity and world trade, we cannot rule out further downside surprises which may weaken the external market recovery projected under the baseline scenario
- Uncertainty over Brexit
- Possible resurgence or intensification of geopolitical tensions in some regions

➤ In the domestic environment:

- Uncertainty over the future economic policy stance

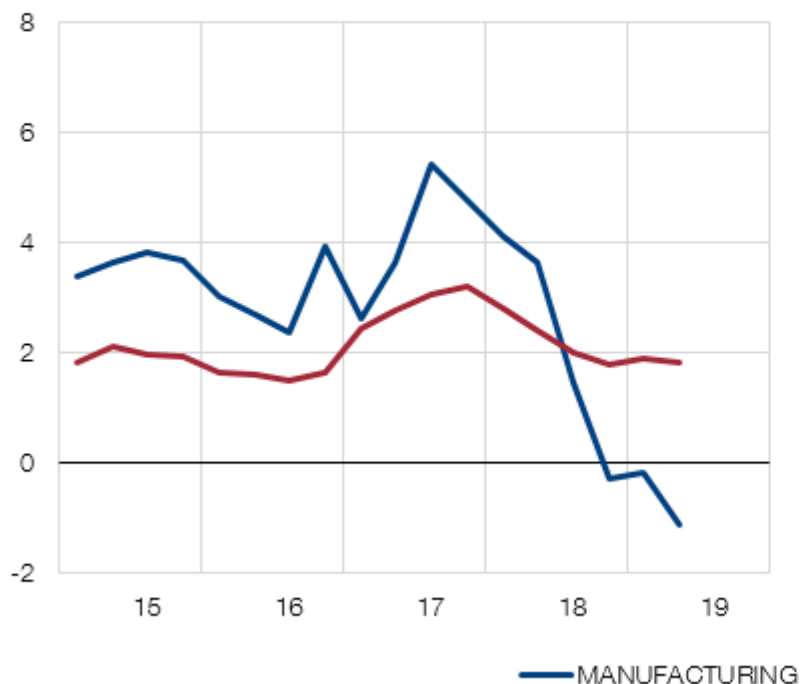
Prices

- Materialisation of downside risks to activity
- Uncertainty as to how sensitive core inflation will be to the cyclical improvement in the economy

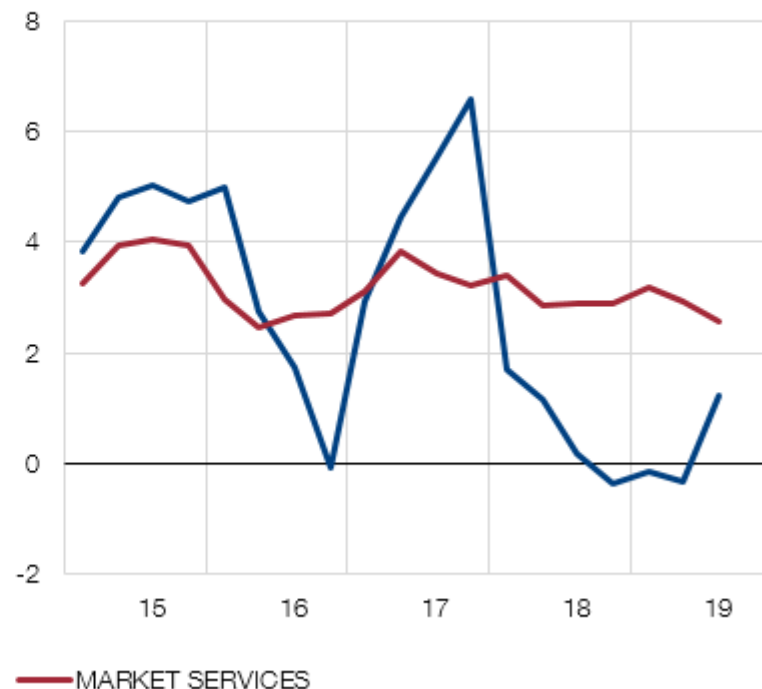
ANALYSIS: THE RECENT SLOWDOWN IN ACTIVITY FROM A SECTORAL STANDPOINT (I)

- From early 2018, the slowdown in global economic activity has been related to a marked worsening in international trade and manufacturing activity indicators, ...
- ... although also to a certain loss of dynamism of the services sector

GROSS VALUE ADDED IN THE EURO AREA
(Year-on-year change, %)



GROSS VALUE ADDED IN SPAIN
(Year-on-year change, %)

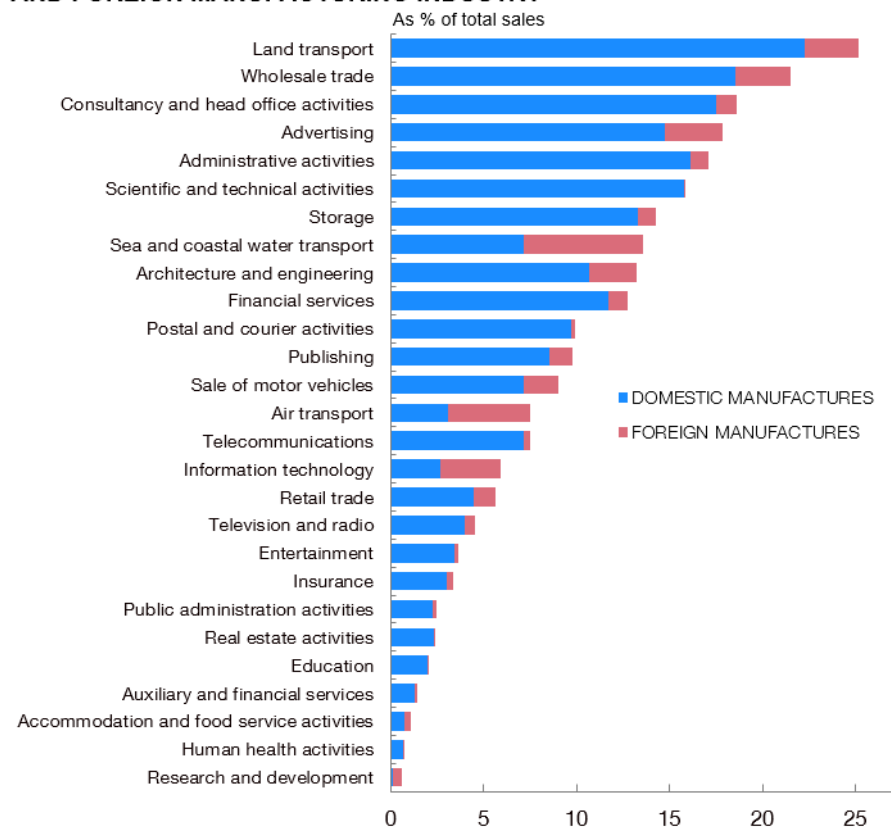


Sources: Eurostat and INE. Latest observation: Euro area 2019 Q2 and Spain 2019 Q3.

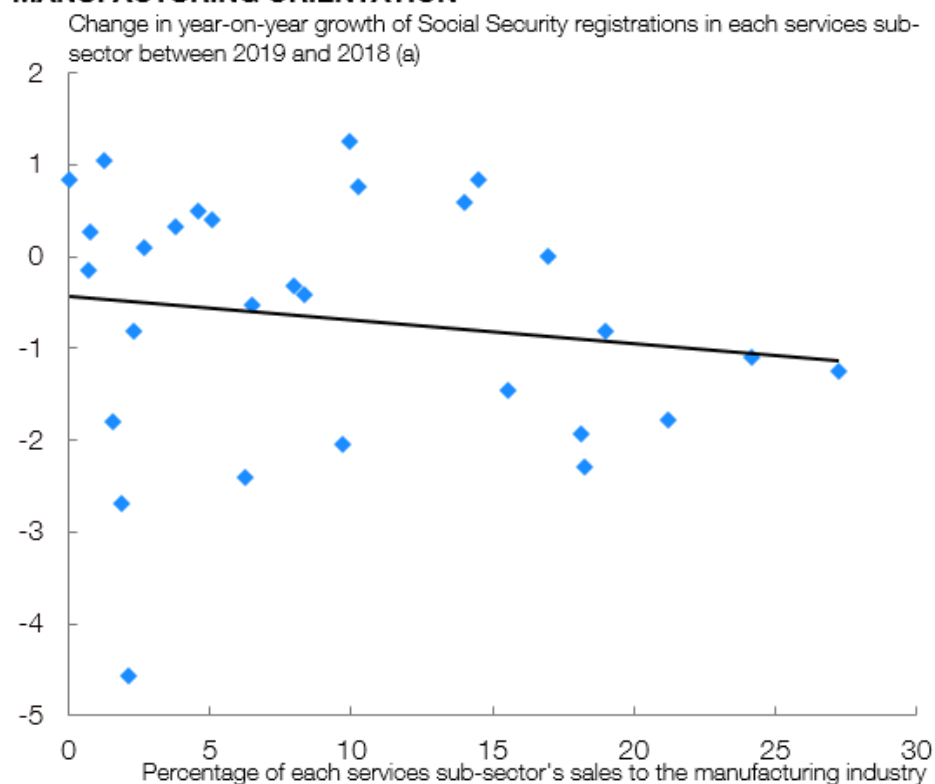
ANALYSIS: THE RECENT SLOWDOWN IN ACTIVITY FROM A SECTORAL STANDPOINT (II)

- In Spain, part of the slowdown in services since the beginning of 2018 seems to be linked to the even sharper slowdown in manufacturing: the loss of momentum has been more marked in those services sub-sectors with a greater manufacturing orientation

PERCENTAGE OF THE SERVICES SECTOR'S INVOICING TO THE DOMESTIC AND FOREIGN MANUFACTURING INDUSTRY



SLOWDOWN OF SOCIAL SECURITY REGISTRATIONS AND MANUFACTURING ORIENTATION

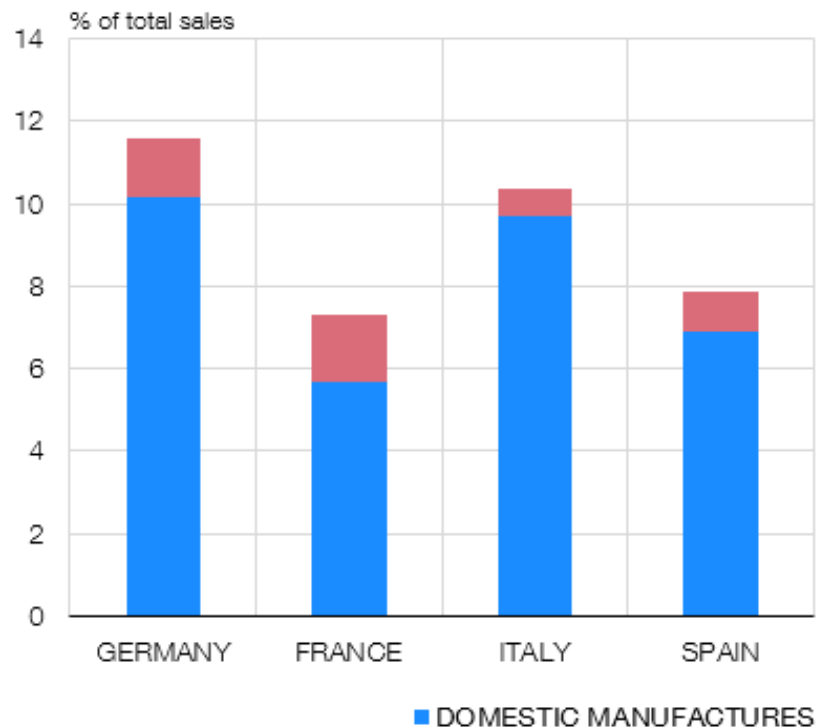


Sources: Own calculations, WIOD 2016 (left), INE and Ministerio de Trabajo, Migraciones y Seguridad Social (right). (a) Latest observation: October 2019.

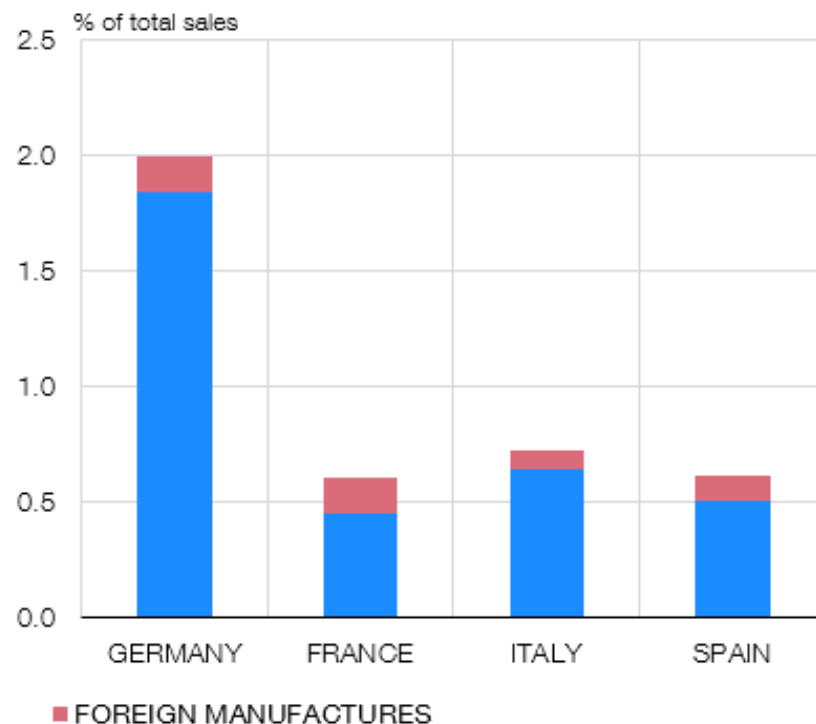
ANALYSIS: THE RECENT SLOWDOWN IN ACTIVITY FROM A SECTORAL STANDPOINT (III)

- The exposure of the Spanish services sector to industry, in general, and to the car sector, in particular, is less than that in Germany (and, to a lesser extent, Italy)
- This has contributed to the carry-over effect from manufacturing on the economy as a whole being comparatively less acute in Spain's case

PERCENTAGE OF THE SERVICES SECTOR'S INVOICING TO THE MANUFACTURING INDUSTRY



PERCENTAGE OF THE SERVICES SECTOR'S INVOICING TO THE CAR INDUSTRY



Sources: Own calculations based on WIOD 2016.

THANK YOU FOR YOUR ATTENTION



APPENDIX



PROJECTIONS: 2019-2022

Annual rate of change in volume terms and % of GDP

	2018	Projection				Differences between current and September 2019 projections		
		2019	2020	2021	2022	2019	2020	2021
GDP	2.4	2.0	1.7	1.6	1.5	0.0	0.0	0.0
Private consumption	1.8	1.2	1.6	1.4	1.3	0.2	0.3	0.0
Government consumption	1.9	2.2	1.7	1.5	1.4	0.4	0.4	0.3
Gross fixed capital formation	5.3	2.7	3.3	2.5	1.9	0.5	-0.1	0.0
Investment in equipment, intangibles and other	4.1	4.1	4.9	2.3	1.7	1.8	2.0	0.0
Investment in construction	6.6	1.4	1.6	2.8	2.1	-0.9	-2.3	-0.1
Exports of goods and services	2.2	1.8	2.3	2.9	2.9	-0.4	-0.6	-0.4
Imports of goods and services	3.3	1.0	3.3	3.2	3.0	0.5	0.1	-0.3
National demand (contribution to growth)	2.7	1.7	1.9	1.6	1.5	0.3	0.2	0.1
Net external demand (contribution to growth)	-0.3	0.3	-0.2	0.0	0.0	-0.3	-0.3	-0.1
Harmonised index of consumer prices (HICP)	1.7	0.8	1.2	1.4	1.6	0.0	0.1	-0.1
HICP excluding energy and food	1.0	1.1	1.4	1.5	1.7	0.0	0.0	-0.1
Employment (full-time equivalent jobs)	2.5	2.0	1.3	1.4	1.2	0.2	0.0	-0.1
Unemployment rate (% of labour force). End-of-period data	14.4	14.3	13.6	13.0	12.5	0.2	0.4	0.2
Unemployment rate (% of labour force). Annual average	15.3	14.2	13.8	13.1	12.6	0.1	0.2	0.1
General government net lending (+)/net borrowing (-) (% of GDP)	-2.5	-2.5	-2.1	-1.8	-1.4	-0.1	-0.3	-0.3

MAIN CHANGES IN THE EXTERNAL ASSUMPTIONS OF THE EXERCISE

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS	Current projection					Difference from September 2019 projection		
	2018	2019	2020	2021	2022	2019	2020	2021
International environment								
World GDP	3.6	2.7	2.9	3.1	3.1	-0.1	-0.3	-0.1
Spain's export markets	3.2	1.8	1.9	2.5	2.7	-0.1	-0.6	-0.4
Oil price in US dollar/barrel (level)	71.1	63.8	59.6	57.4	56.8	-0.2	-0.4	-0.4
Monetary and financial conditions								
US dollar/euro exchange rate (level)	1.18	1.12	1.10	1.10	1.10	0.00	0.00	0.00
Nominal effective exchange rate against non-euro area (2000 = 100 and percentage differences)	121.5	116.4	114.8	114.8	114.8	0.0	-0.3	-0.3
Short-term interest rate (3-month EURIBOR)	-0.3	-0.4	-0.4	-0.4	-0.3	0.0	0.1	0.1
Long-term interest rate (10-year bond yield)	1.4	0.7	0.5	0.7	0.9	0.0	0.1	0.1

External assumptions cut-off date: 19 November.