

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2018-2020

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OVERVIEW

- **Activity:**
 - *The upturn is projected to continue, at a somewhat slower rate than in recent years*
 - *Growth is revised downwards throughout the projection period, mainly due to the deterioration in external markets*
- **Prices:**
 - *In the coming quarters, inflation will moderate, due to the smaller contribution of the energy component, which will offset the gradual rise in core inflation*
 - *The projected rise in core inflation is in line with the growing use of productive factors*

Annual rate of change (%)	2017	September 2018 projections		
		2018	2019	2020
GDP (real)	3.0	2.6	2.2	2.0
Employment	2.8	2.4	1.9	1.7
HICP (inflation)	2.0	1.8	1.7	1.5

Projections cut-off date: 21 September 2018.

CHANGES IN THE ASSUMPTIONS

- The main changes stem from the external environment, in particular the downward revision to external markets
- The changes to the other assumptions are smaller in magnitude: flatter oil price profile and downward revision to the yield curve

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

Annual rates of change, unless otherwise indicated

	2017	Current projection			Difference between the current projections and those made in June 2018		
		2018	2019	2020	2018	2019	2020
International environment							
World output	3.6	3.7	3.5	3.4	-0.1	-0.2	0.0
Spain's export markets	4.9	3.5	3.8	3.7	-0.9	-0.5	-0.1
Oil price in dollars/barrel (level)	54.4	73.4	75.5	71.9	-1.1	2.0	3.2
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.13	1.19	1.16	1.16	-0.01	-0.02	-0.02
Spain's nominal effective exchange rate vis-à-vis the world including the euro area (2000 = 100 and percentage differences)	114.6	117.9	118.6	118.6	0.5	1.1	1.1
Short-term interest rate (3-month EURIBOR)	-0.3	-0.3	-0.2	0.1	0.0	-0.1	-0.2
Long-term interest rate (10-year bond yield)	1.6	1.4	1.7	2.0	-0.1	-0.1	-0.1

The cut-off date for the technical assumptions is 14 September 2018, except for those for the external setting, for which the cut-off date is 21 August 2018. Differences with respect to 22 May 2018.

REVISIONS WITH RESPECT TO JUNE

➤ Activity:

- *Downward revision due to deterioration of external markets and, to a lesser extent, higher oil prices*

➤ Prices:

- *Downward revision due to less dynamic behaviour of demand than previously anticipated and recent negative surprises in the core component (in particular, services)*
- *This will be partly offset by a more elevated path for oil prices in 2019-2020*

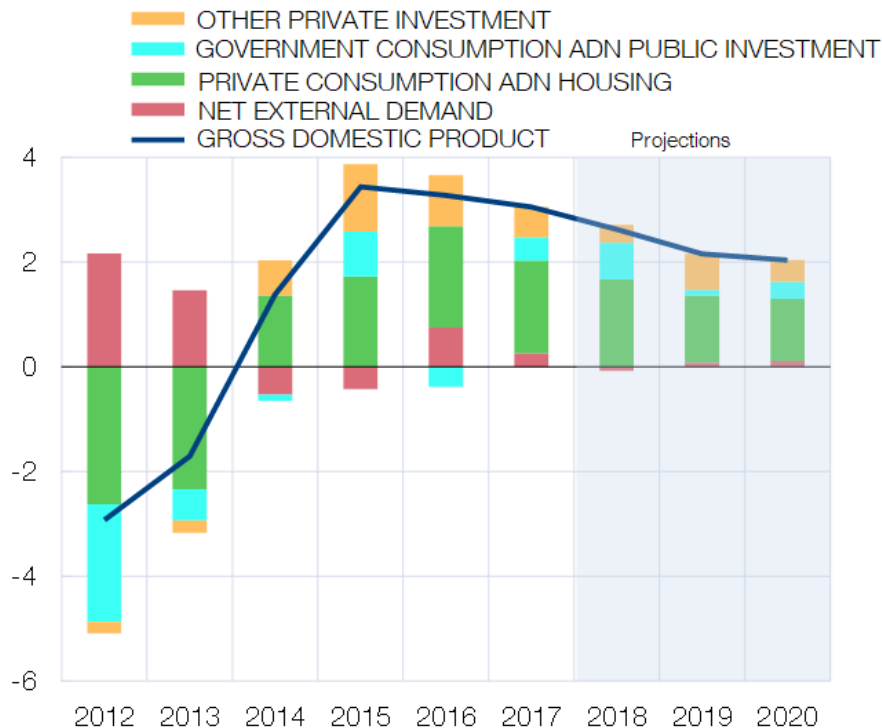
Annual rate of change (%)	2017	September 2018 projections			Revisions in relation to the June 2018 projections (pp)		
		2018	2019	2020	2018	2019	2020
GDP (real)	3.0	2.6	2.2	2.0	-0.1	-0.2	-0.1
HICP (inflation)	2.0	1.8	1.7	1.5	-0.2	0.0	-0.1

COMPOSITION OF GDP GROWTH

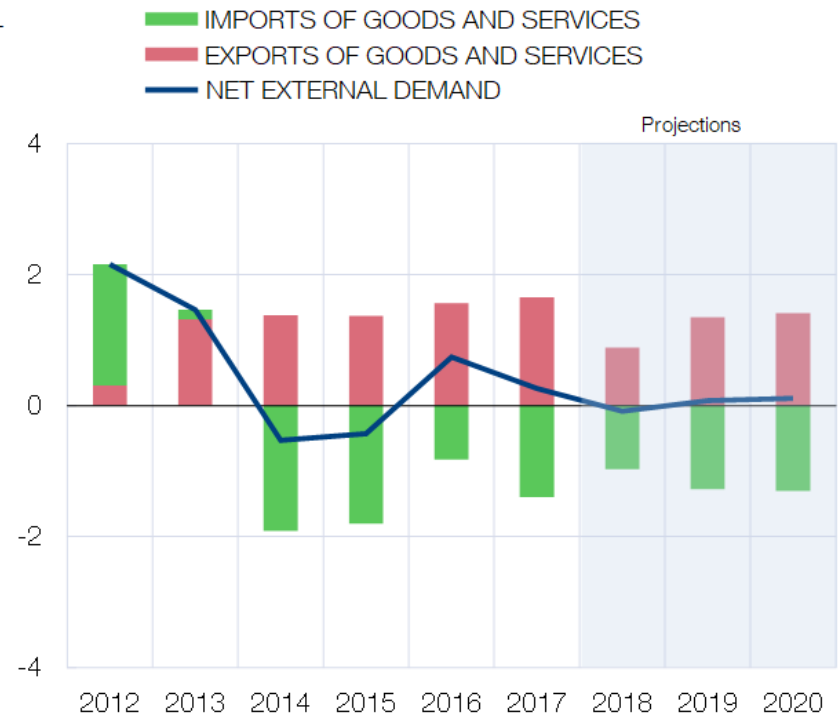


- Output growth will continue to be underpinned by domestic demand, which is projected to slow somewhat
- Net external demand will make a marginally positive contribution throughout the projection period

GDP GROWTH (%) AND CONTRIBUTIONS (pp)



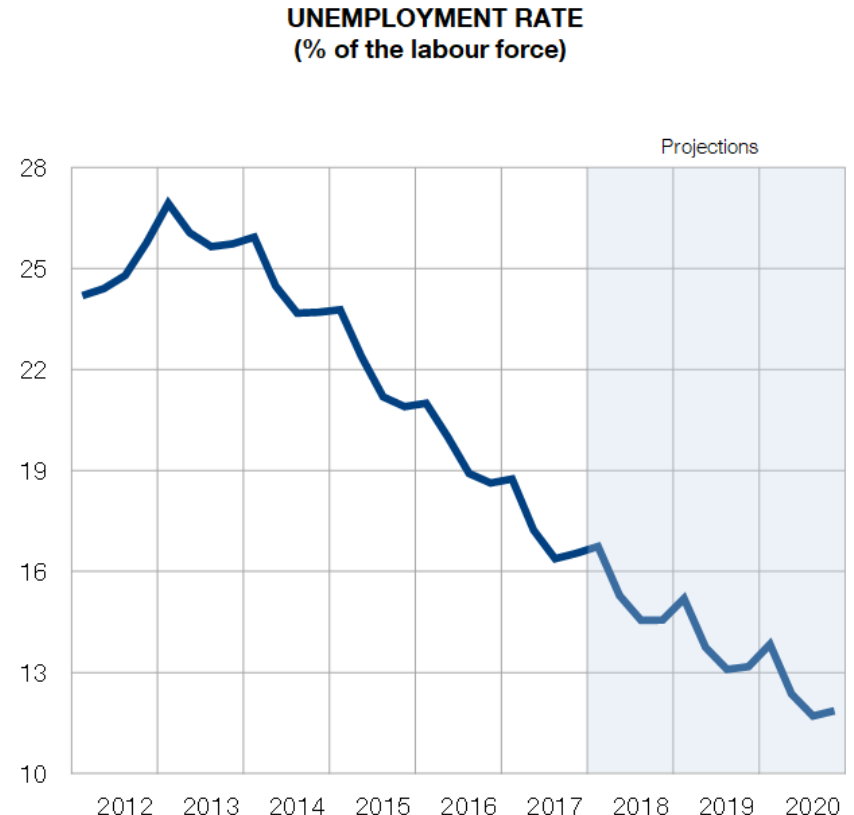
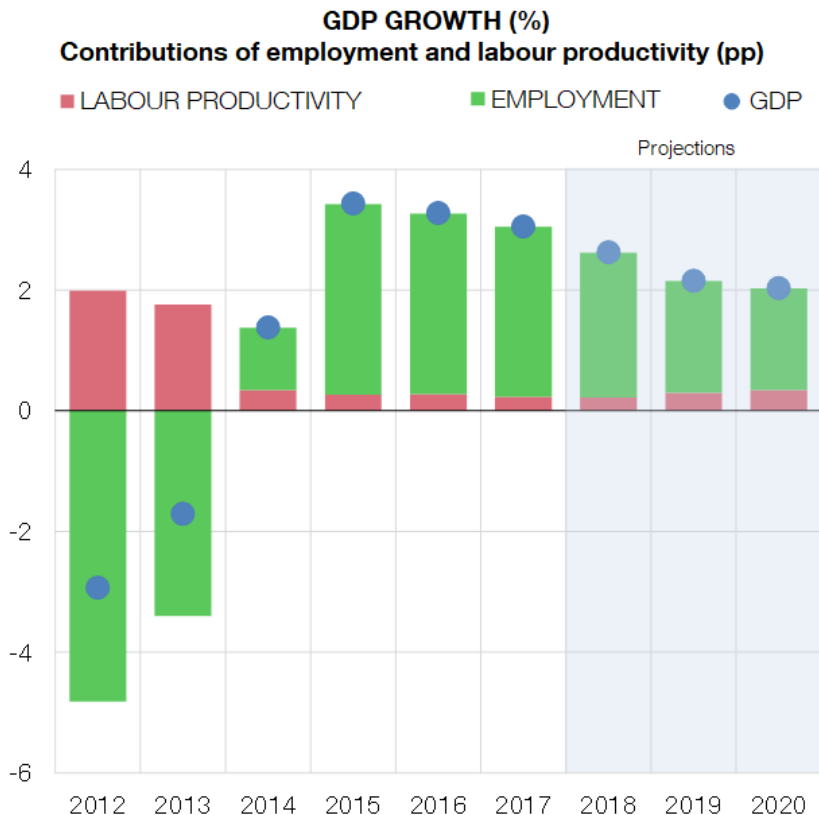
NET EXTERNAL DEMAND AND CONTRIBUTIONS (pp)



EMPLOYMENT AND UNEMPLOYMENT



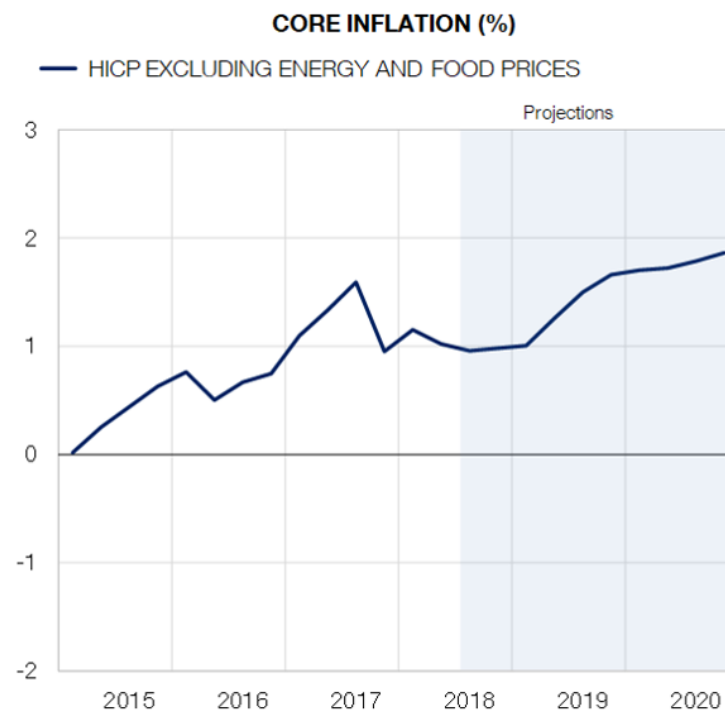
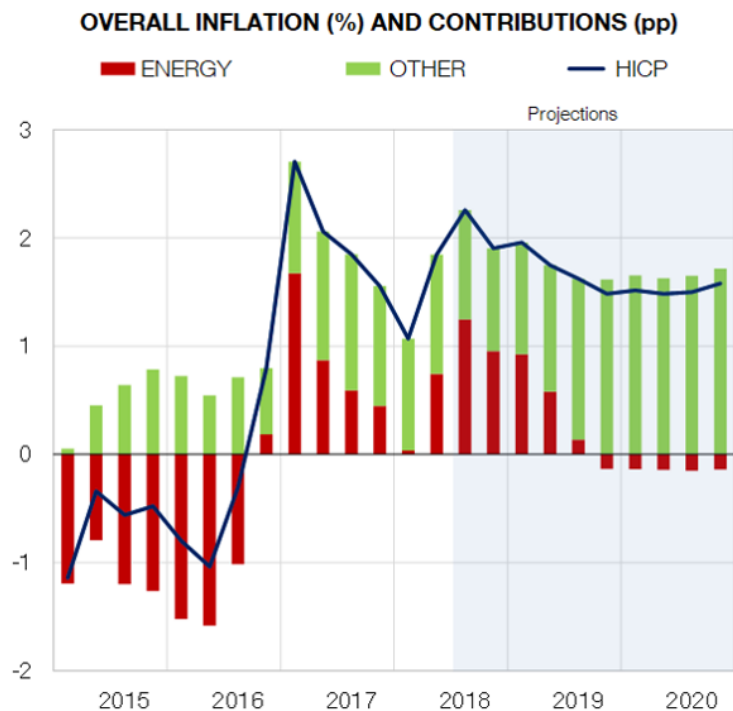
- As is usually the case in upturns in the Spanish economy, apparent labour productivity is forecast to grow at meagre rates
- Sustained job creation will lead to further falls in the rate of unemployment, to slightly below 12% at the end of 2020, against a background of small increases in the labour force



INFLATION PATH



- The energy component will begin to lose momentum as oil futures head down slightly
- Core inflation will rise gradually, in keeping with the widening of the positive output gap and the gradual acceleration in unit labour costs
- Overall, headline inflation will moderate in coming quarters, and will stabilise towards the end of the projection period

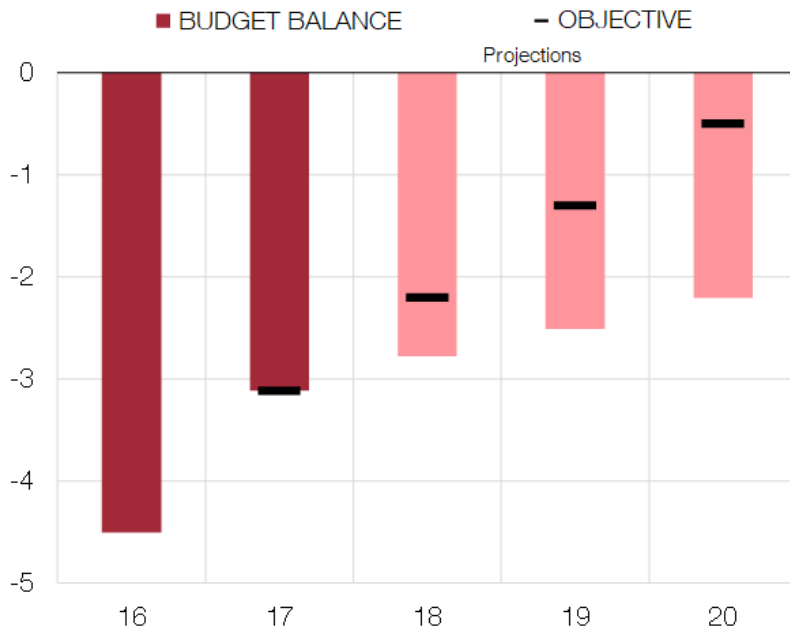


THE BUDGET DEFICIT AND PUBLIC DEBT

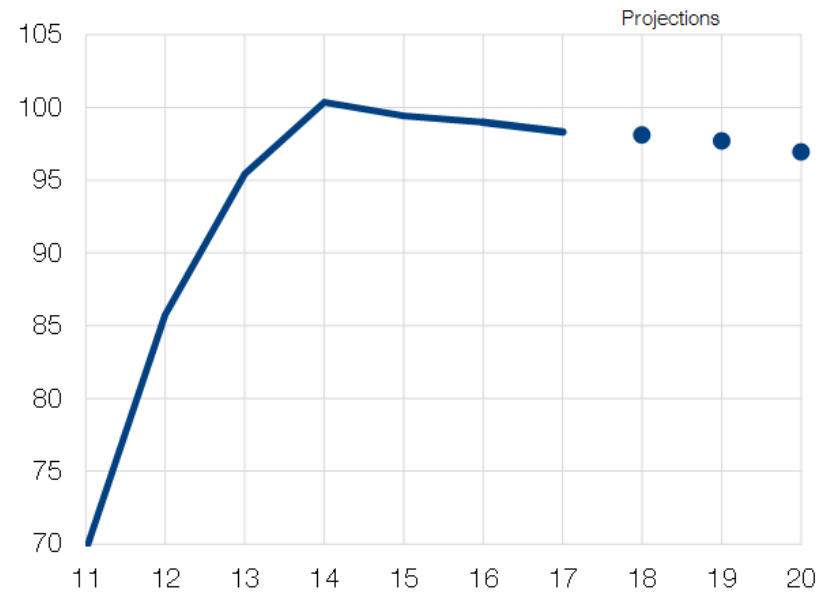


- A deficit of 2.8% of GDP is estimated for 2018, consistent with Spain's exit this year from the excessive deficit procedure
- The fiscal policy stance is expected to be expansionary in 2018-2019 and neutral in 2020
- Although nominal GDP growth explains the slightly downward path of the public debt ratio, its level in 2020 is expected to continue to be very high

GENERAL GOVERNMENT BALANCE (% of GDP)

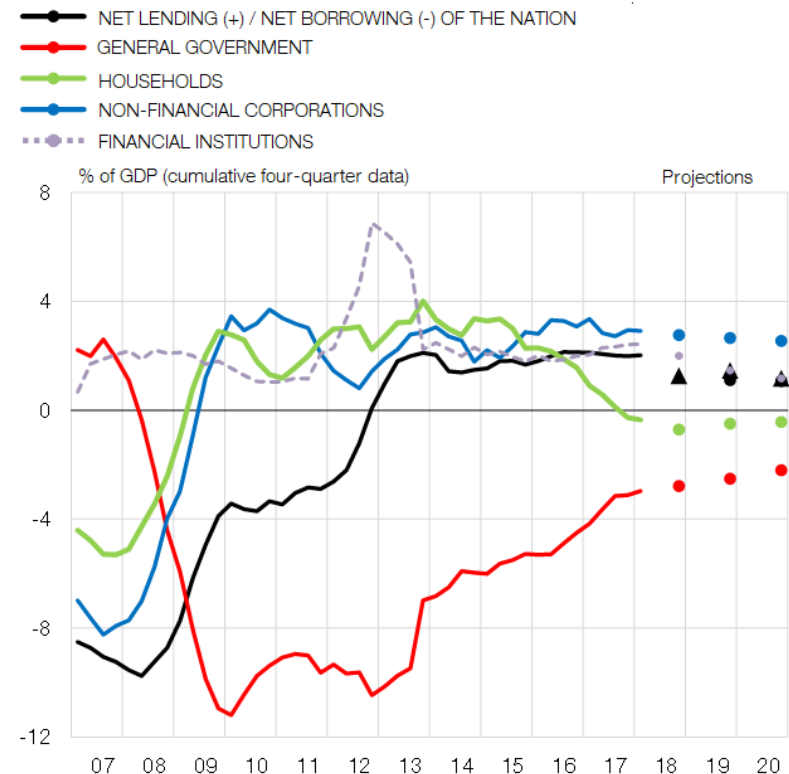
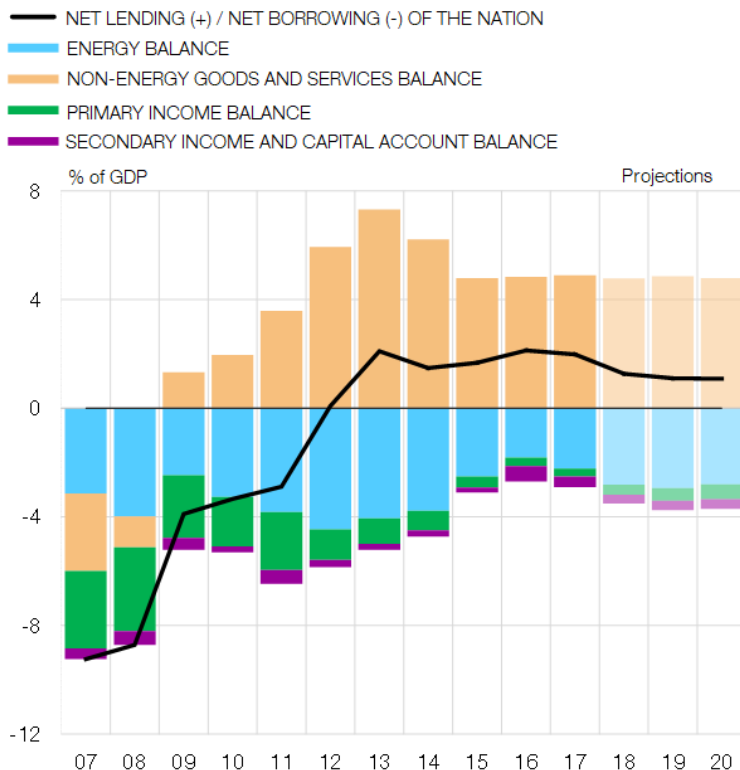


GENERAL GOVERNMENT DEBT (% of GDP)



THE ECONOMY'S NET LENDING POSITION

- Net lending vis-à-vis the rest of the world is expected to decline somewhat compared with 2016-2017 (2% of GDP), essentially owing to higher oil prices
- By sector, a continuation of the momentum of household investment is projected, along with some increase in household saving from 2019, which will lead to stabilisation of household net borrowing, while for non-financial corporations a slight decline in net lending is projected, and for general government a gradual decrease in net borrowing





Activity: on the downside

- *On the external front:*
 - *Possible repercussions of the US economic policy mix on global financial conditions*
 - *Hypothetical escalation of trade protectionism measures and/or geopolitical tensions*
- *In the domestic arena:*
 - *Possible adverse effects stemming from the uncertainty about the future course of economic policy (fiscal consolidation process and structural reforms)*
 - *Hypothetical increase in political uncertainty in Catalonia*

Prices: moderately on the downside

- *Hypothetical materialisation of downside risks weighing on activity*
- *By contrast, the heightening of certain geopolitical risks could drive up import prices, especially energy prices*

PROJECTIONS TABLE (2018-2020)

Annual rate of change in volume terms and % of GDP

	2017 (a)	September 2018 projections			Difference between the current projections and those made in June 2018		
		2018	2019	2020	2018	2019	2020
GDP	3.1	2.6	2.2	2.0	-0.1	-0.2	-0.1
Private consumption	2.4	2.2	1.6	1.5	-0.2	-0.2	-0.2
Government consumption	1.6	1.9	1.5	1.2	0.4	0.1	0.0
Gross fixed capital formation	5.0	5.1	4.1	3.9	0.8	-0.2	-0.1
Investment in capital goods	6.1	5.1	3.8	3.7	2.6	-0.4	-0.3
Investment in construction	4.6	5.5	4.4	4.3	-0.1	0.0	0.0
Exports of goods and services	5.0	2.6	3.9	4.1	-2.0	-0.9	-0.4
Imports of goods and services	4.7	3.1	4.0	4.0	-1.4	-0.6	-0.5
National demand (contribution to growth)	2.8	2.7	2.1	1.9	0.2	-0.1	-0.1
Net external demand (contribution to growth)	0.3	-0.1	0.1	0.1	-0.3	-0.1	0.0
Nominal GDP	4.0	3.7	3.9	3.8	-0.5	-0.2	-0.2
GDP deflator	1.0	1.0	1.7	1.8	-0.4	0.0	-0.1
Harmonised index of consumer prices (HICP)	2.0	1.8	1.7	1.5	-0.2	0.0	-0.1
HICP excluding energy and food	1.2	1.0	1.4	1.8	-0.4	-0.3	-0.2
Employment (full-time equivalents)	2.8	2.4	1.9	1.7	0.0	-0.2	-0.2
Unemployment rate (% of labour force). End-of-period data	16.5	14.6	13.2	11.9	0.0	0.2	0.5
Unemployment rate (% of labour force). Average data	17.2	15.3	13.8	12.4	0.1	0.4	0.6
Nation's net lending (+) / net borrowing (-) (% of GDP)	2.0	1.3	1.1	1.1	-0.3	-0.5	-0.4
General government's net lending (+) / net borrowing (-) (% of GDP)	-3.1	-2.8	-2.5	-2.2	-0.1	-0.2	-0.2

(a) The National Accounts series have been updated to incorporate the revision of the Annual National Accounts for 2015-2017 published by the INE on 6 September 2018. The new figures for the net lending / net borrowing of the nation and general government will be released on 28 September 2018.