

# **MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2018-2020**

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# OVERVIEW

- **Activity:**

- *a prolongation of the expansionary phase is expected, albeit at a diminishing pace over time*
- *the recent, favourable high-frequency information, a more propitious international environment, a somewhat more expansionary fiscal policy and somewhat less political uncertainty in Catalonia lead to an upward revision of expected output growth*

- **Prices:**

- *in the short term, a path highly influenced by the expected course of energy prices and their base effects*
- *subsequently, a gradual rise in overall inflation is projected, in step with the foreseeable increase in the use of productive factors*

Annual rate of change (%)	2017	March 2018 projections		
		2018	2019	2020
<b>GDP (real)</b>	3.1	2.7	2.3	2.1
<b>Employment</b>	2.8	2.7	2.0	1.9
<b>CPI (inflation)</b>	2.0	1.2	1.4	1.7

Projections cut-off date: 13 March 2018.

# CHANGES IN ASSUMPTIONS

- On the fiscal policy front, a somewhat more expansionary stance is projected, linked to the impact of the public sector agreement between the government and trade unions
- The growth path of foreign markets is revised upwards
- The changes in the other assumptions are on a limited scale: a somewhat higher euro exchange rate, oil prices that are somewhat higher in dollars (but not in euro owing to the appreciation), short-term interest rates slightly up, and down at the long end

## INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

Annual rate of change, unless otherwise indicated

	2017	Current projection			Differences from December 2017 projection		
		2018	2019	2020	2018	2019	2020
<b>International environment</b>							
Global output	3.6	3.9	3.7	3.5	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>
Spain's exports markets	5.2	5.0	4.1	3.6	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>
Oil price in dollars/barrel (level)	54.4	64.4	61.1	59.1	<b>2.8</b>	<b>2.1</b>	<b>1.7</b>
<b>Monetary and financial conditions</b>							
Dollar/euro exchange rate (level)	1.13	1.23	1.23	1.23	<b>0.06</b>	<b>0.06</b>	<b>0.06</b>
Nominal effective exchange rate against non-euro area (2000 = 100 and percentage differences)	117.0	125.0	125.0	125.0	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
Short-term interest rates (3-month EURIBOR)	-0.3	-0.3	-0.1	0.4	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
Long-term interest rates (10-year bond yield)	1.6	1.5	1.9	2.2	<b>-0.2</b>	<b>-0.2</b>	<b>-0.3</b>

The technical assumptions cut-off date is 9 March 2018, except for the external environment assumptions, whose cut-off date is 13 February. Differences in relation to 22 November 2017.

## REVISIONS IN RELATION TO DECEMBER

### ➤ Activity:

- *Higher expected growth in output as a result of the combination of a series of factors (more favourable-than-anticipated short-term data, a more expansionary export market performance, a slight reduction in political uncertainty) and of the somewhat more expansionary fiscal policy stance in 2018*

### ➤ Precios:

- *Moderate downward revision in 2018 because the recent course of energy prices has been less dynamic than anticipated in December*

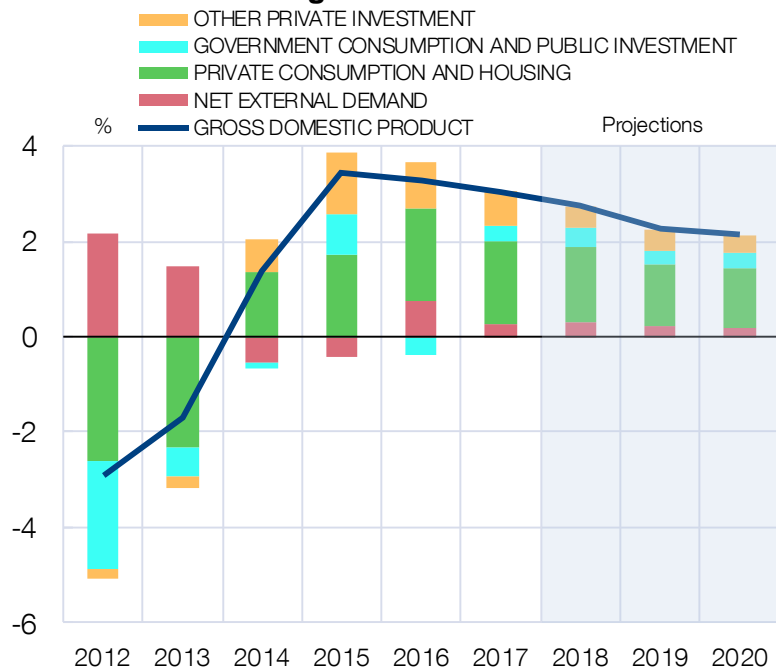
Annual rate of change (%)	2017	March 2018 projections			Revisions in relation to the December 2017 projections (pp)		
		2018	2019	2020	2018	2019	2020
<b>GDP (real)</b>	3.1	2.7	2.3	2.1	0.3	0.2	0.1
<b>CPI (inflation)</b>	2.0	1.2	1.4	1.7	-0.2	-0.1	0.0

# COMPOSITION OF OUTPUT GROWTH

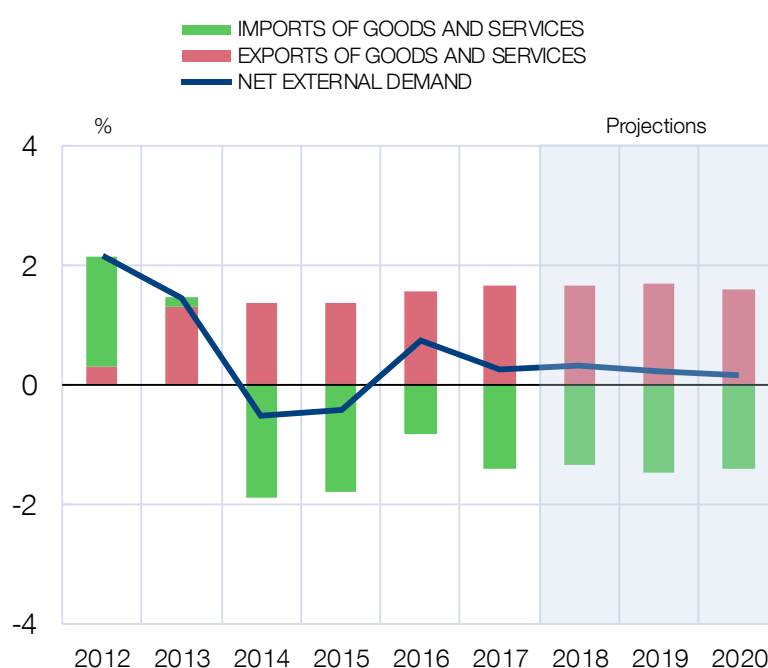


- The expansion in output will continue to be underpinned by national demand, although its various components will ease somewhat
- Net external demand will make a slightly positive, though diminishing, contribution throughout the projection period

**GDP. Annual growth and contributions**



**Net external demand. Contributions**

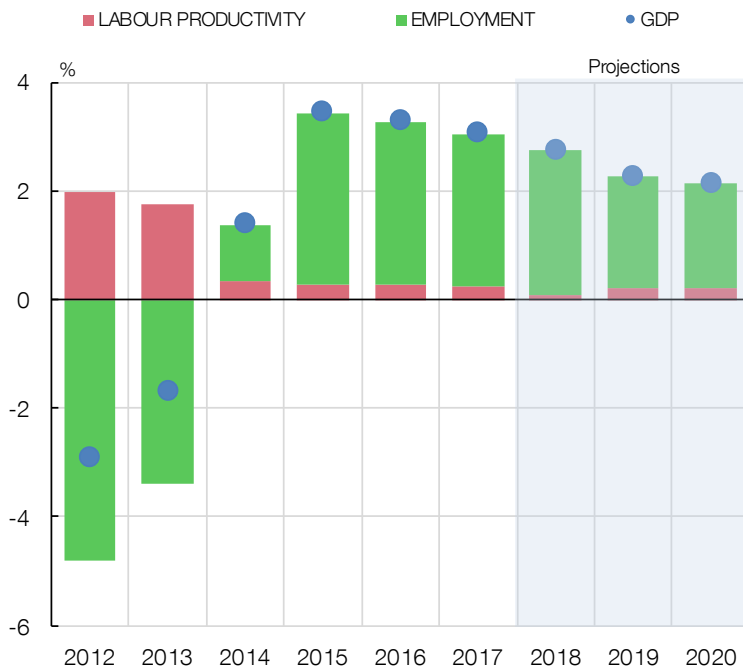


# EMPLOYMENT AND UNEMPLOYMENT



- In line with activity, employment will continue to grow at a high rate, albeit one lower than in the past three years
- Job creation will provide for further falls in the unemployment rate, bringing it to 11% at end-2020, against a background of small declines in the labour force

**GDP growth. Contributions of employment and labour productivity**



**Unemployment rate. Level**

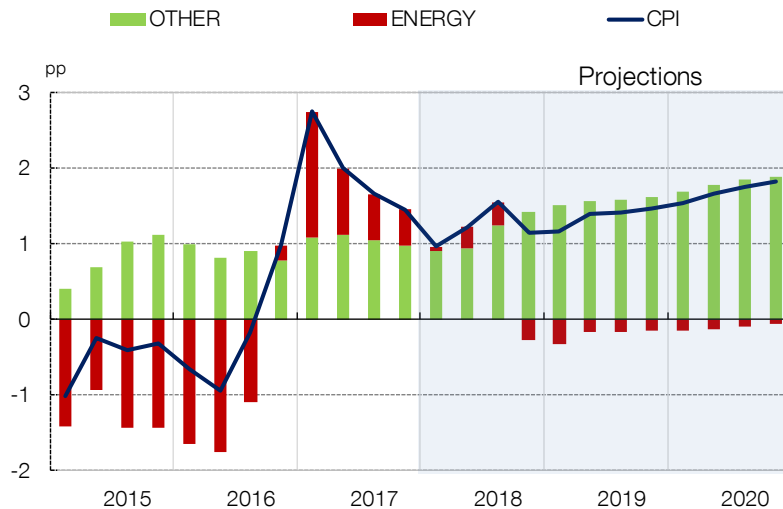


# INFLATION PATH

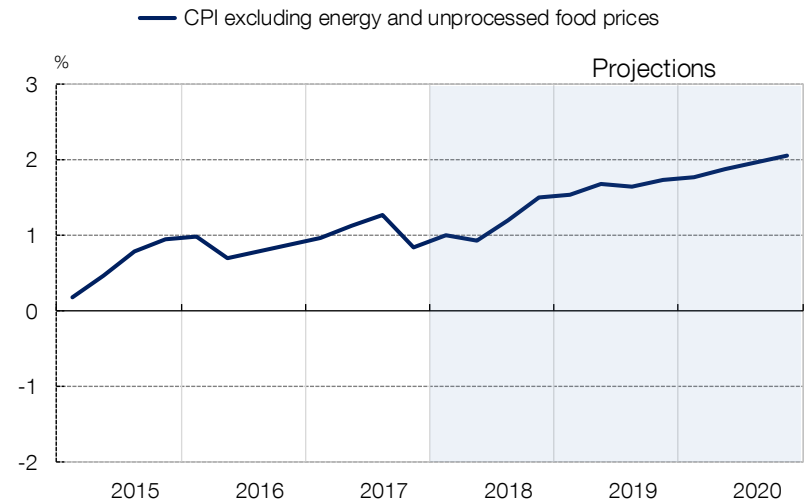


- In the course of 2018: the trajectory will be influenced by the energy component
- In 2019-2020:
  - A moderately declining profile is expected in oil prices and, accompanying it, a slightly negative contribution of the energy component to overall inflation
  - Progressive increase in core inflation, in step with the widening of the positive output gap and a gradual rise in unit labour costs
  - Accordingly, a gradually rising trajectory in overall inflation is projected

CONTRIBUTIONS TO OVERALL INFLATION



CORE INFLATION

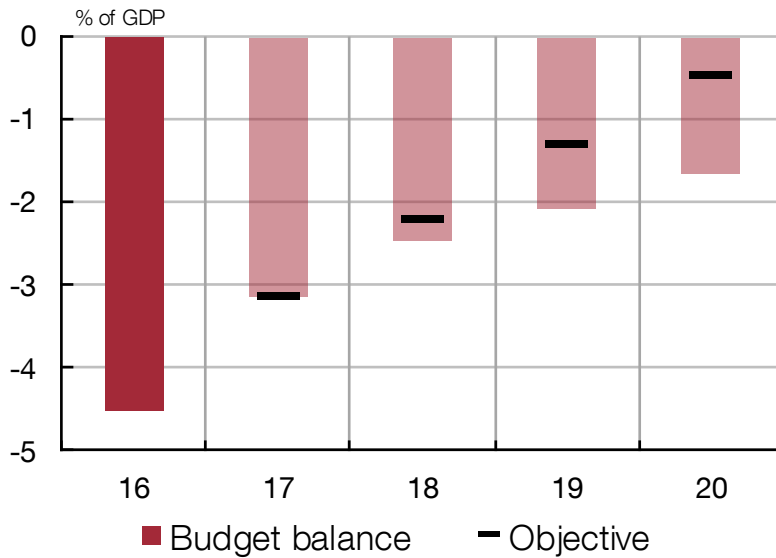


# THE BUDGET DEFICIT AND PUBLIC DEBT

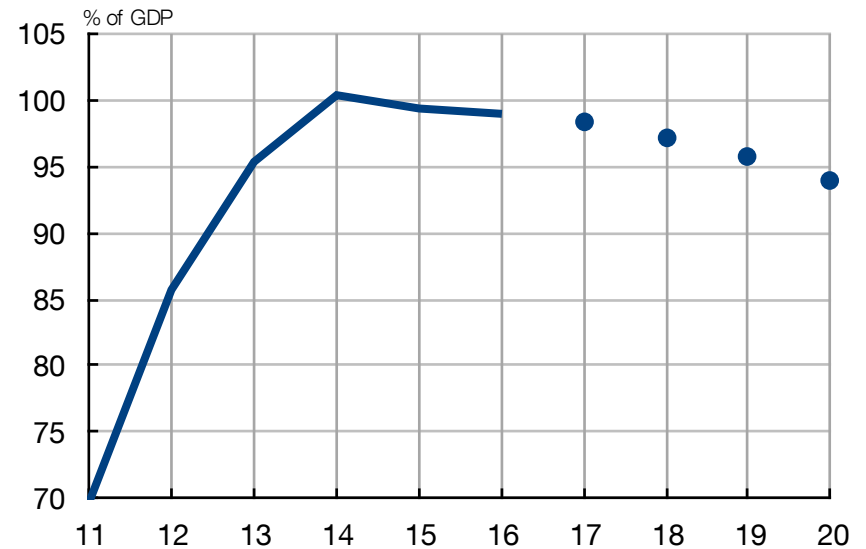


- Achieving the deficit target appears highly likely for 2017, but the risks of slippage for the rest of the period are high
- The fiscal policy stance is forecast to be slightly expansionary in 2018, compared with the approximately neutral stance estimated for 2017
- Although nominal output growth explains something of a declining path in the public debt ratio, its level in 2020 is expected to be still excessively high

### GENERAL GOVERNMENT BALANCE



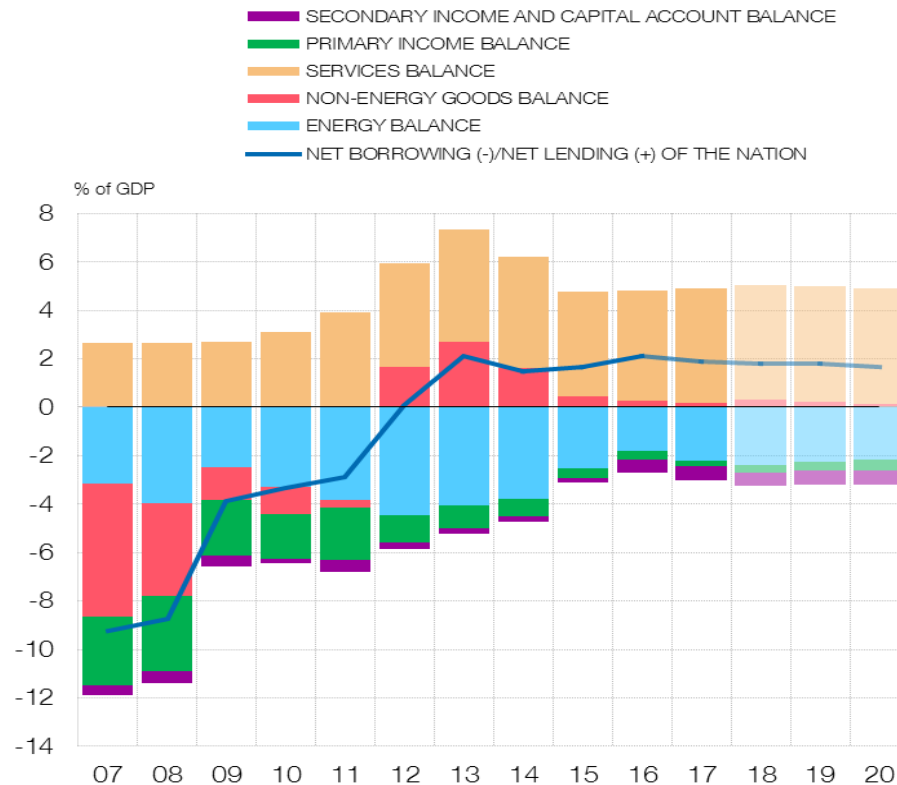
### GENERAL GOVERNMENT DEBT





# THE ECONOMY'S NET LENDING POSITION

- A slight decline is projected in net lending vis-à-vis the rest of the world, slightly below 2% of GDP, in a setting in which net external demand will continue to make a positive, though diminishing, contribution to the increase in output
- Sector by sector, a somewhat sharper reduction in private-sector net lending is expected than that anticipated for general government net borrowing





## **Activity: upside in the short term and downside in the medium term**

- *in the external arena:*
  - *in the short term, a hypothetical underestimation of the expansionary dynamics of the global and, in particular, the euro area economy (+)*
  - *in the medium term, possible bouts of financial tension associated with the process of monetary policy normalisation (-) and risk of spiralling protectionist measures (-)*
- *on the domestic front:*
  - *a hypothetical rise in political uncertainty in Catalonia (-)*
  - *the potential consequences of an easing in budgetary consolidation efforts, which might have a positive effect on short-term growth (+) but which would delay the reduction in the structural budget deficit and would slow the ongoing reduction in the public debt ratio, increasing the economy's vulnerability (-)*

## **Prices: balanced**

- *uncertainty about the intensity of the reaction of prices and wages to the reduction in the degree of cyclical slack (+/-)*
- *a hypothetical materialisation of downside risks to activity (-)*
- *possible greater global inflationary pressures (via commodities prices) arising from the intensity and synchrony of the current upturn in global activity (+)*

# PROJECTIONS TABLE (2018-2020)



Annual rates of change in volume and as % of GDP	2017	March 2018 projection			Difference between current and December 2017 projection (pp)		
		2018	2019	2020	2018	2019	2020
<b>GDP</b>	<b>3.1</b>	<b>2.7</b>	<b>2.3</b>	<b>2.1</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>
Private consumption	2.4	2.1	1.6	1.6	0.3	0.2	0.2
Government consumption	1.6	1.4	1.2	1.2	0.5	0.5	0.5
Gross fixed capital formation	5.0	4.3	4.1	3.9	0.3	0.4	0.2
Investment in capital goods	6.1	5.0	4.1	3.8	0.6	0.4	0.0
Investment in construction	4.6	4.0	4.4	4.3	0.1	0.1	0.2
Goods and services exports	5.0	4.9	4.8	4.5	0.0	0.1	0.0
Goods and services imports	4.7	4.2	4.5	4.3	0.1	0.3	0.5
National demand (contribution to growth)	2.8	2.4	2.1	1.9	0.4	0.3	0.1
Net external demand (contribution to growth)	0.3	0.3	0.2	0.2	-0.1	-0.1	-0.2
<b>Nominal GDP</b>	<b>4.0</b>	<b>3.9</b>	<b>3.8</b>	<b>3.8</b>	<b>0.5</b>	<b>0.2</b>	<b>0.0</b>
GDP deflator	1.0	1.2	1.5	1.7	0.2	0.0	0.0
Consumer price index (CPI)	2.0	1.2	1.4	1.7	-0.2	-0.1	0.0
CPI excluding energy and unprocessed food prices	1.1	1.2	1.7	1.9	0.0	0.1	0.1
Employment (equivalent jobs)	2.8	2.7	2.0	1.9	0.4	0.3	0.3
Unemployment rate (percentage of the labour force). End-of-period data	16.5	14.2	12.6	11.0	0.1	0.4	0.3
Net lending (+)/ net borrowing (-) of the nation (% of GDP)	1.9	1.8	1.8	1.7	-0.3	-0.3	-0.5
General government net lending (+)/ net borrowing (-) (% of GDP)	-3.1	-2.5	-2.1	-1.7	0.1	0.1	0.1