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Briefing note on macroeconomic projections for the Spanish economy (2016-2018): the Banco de España's contribution to the Eurosystem's June 2016 joint projection exercise

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2016-2018, published today by the Directorate General Economics, Statistics and Research (DGEE) of the Banco de España on its website (available at this [link](#)). These projections are the contribution by the DGEE's experts to the Eurosystem's joint projection exercise, the detailed results of which for the euro area as a whole were published by the [ECB](#)¹ on 2 June 2016. The DGEE publishes projections for the first time for 2018.

The current upturn in the Spanish economy is expected to continue throughout the three year period 2016-2018, albeit at a gradually decreasing rate relative to 2015. GDP growth will continue to be underpinned by the progress made in correcting the economy's imbalances (in particular, the improvement in competitive conditions and deleveraging by households and firms) and by the persistence of favourable financing conditions for economic agents, fostered in turn by the expansionary stance of monetary policy.

Specifically, **GDP is projected to grow this year by 2.7% and to slow to 2.3% in 2017 and 2.1% in 2018**. This path for output is the result of the diminished momentum of certain temporary factors that have boosted activity in the most recent phase, such as lower oil prices, the depreciation of the euro or certain budgetary stimuli, which will be partly offset in the medium term by the gradual improvement in export markets.

Output growth **will continue to be underpinned by national demand**, as has been the case since the beginning of the recovery, with a **high rate of growth in household consumption** and **business investment**. By contrast, the negative contribution of **net external demand** to GDP growth will tend to fade over the projection horizon.

With regard to prices, **after recording a decline of 0.5% in 2016, the national CPI is expected to increase by 1.5% in 2017 and by 1.7% in 2018**, in line with the recovery projected for the oil price and a modest gradual rise in core inflation.

¹ <http://www.ecb.europa.eu/pub/pdf/other/eurosystemstaffprojections201606.en.pdf>

Employment will continue to be created at high rates relative to output growth, paving the way for further declines in the **unemployment rate**, which at the end of 2018 is projected to be around 17% of the labour force.

The **risks around the central scenario for GDP are on balance, as in March, negative.** **On the external front**, uncertainties persist regarding the path of the global economy, especially in relation to certain emerging economies. Other sources of risk arising from the external environment are a hypothetical intensification of geopolitical tensions in certain areas and the result of the referendum in the United Kingdom regarding its continued membership of the European Union. On the upside, there is a possibility that the positive impact of the recently approved monetary policy measures will be greater than assumed in the central scenario. **Domestically**, prolongation of the period of political uncertainty may, in the short term, lead agents to postpone certain spending decisions as a result of the future course of economic policies not having been clearly defined. As regards fiscal policy, the uncertainty is affecting both the timing and composition of fiscal consolidation and, consequently, its ultimate effect on activity. On the other hand, a hypothetical adoption of structural measures tending to improve market functioning and boost productivity growth would have positive effects on growth towards the end of the projection horizon, which go beyond those included in these projections.

With regard to prices, the deviation risks are also slightly tilted to the downside, as a consequence of a hypothetical materialisation of a more unfavourable global growth scenario. On the upside, the impact of the package of monetary policy measures approved to date might boost inflation beyond the gradual acceleration projected in the central scenario.