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## Briefing note

### Macroeconomic projections for the Spanish economy (2019-2021)

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This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2019-2021 which the Banco de España has published today on its website (available at this [link](#)). These projections incorporate the new information that has become available since the last projections were published in [March](#).

These projections point to a **prolongation of the current upturn** in the short and medium term. Certain factors that have been supporting the recovery would lie behind this outcome, in particular, the preservation of a favourable competitive position (that has permitted repeated external surpluses to be run), the strengthening of the financial position of private agents and the maintenance of an accommodative monetary policy stance. This favourable outlook is also based on the assumption that, following their recent weakness, export markets will tend to recover gradually over the next few quarters.

However, GDP growth is projected to follow a path of **gradual slowdown** over the projection horizon, against a background of gradual weakening of the expansionary effects of the monetary policy measures adopted in recent years and a fiscal policy stance that, according to the technical assumptions, is expected to move from expansionary to neutral in the medium term. In addition, a moderate increase is expected in the household savings ratio, from its current historically low level, and thus a certain slowdown in private consumption. A continuing high degree of global uncertainty is also expected to contribute to this somewhat less dynamic behaviour, not only on the part of consumer spending, but also of investment by households and firms.

Having grown by 2.6% in 2018, **GDP growth is expected to edge down to 2.4%** in 2019, 1.9% in 2020 and 1.7% in 2021. Compared with the [March](#) projections, GDP growth in 2019 as a whole has been revised upwards by 0.2 percentage points (pp), in line with the latest activity data, which show that in the first half of the year activity was stronger than anticipated three months ago. For the second half of the year and the next two years the path of GDP growth remains unchanged, the net result of various changes of the opposite sign in the assumptions on which the projections are based. On one hand, the projected loss of momentum in export markets is now somewhat less favourable for output growth. On the other hand, somewhat lower financing costs are anticipated, in step with the expected lower level of interest rates, according to prices on financial markets.

**National demand will continue to support GDP growth**, although its positive contribution will moderate over the projection horizon. The **contribution of external demand** to GDP growth will remain **close to zero**.

As regards **employment**, the **high growth rates of recent years are projected to moderate gradually**, in line with the projected slowdown in activity. Despite the increase in the labour force, job creation will allow the rate of unemployment to fall to 12% by the end of 2021.

The gradual widening of the output gap and projected higher wage increases will lead to greater upward pressure on prices. As a result, the rate of **core inflation**, as measured by the Harmonised Index of Consumer Prices (HICP) excluding energy and food, **will rise gradually over the projection horizon**. On average, the rate will stand at 1.2%, 1.5% and 1.7% in 2019, 2020 and 2021, respectively. The upward price trajectory is somewhat less pronounced in terms of the overall HICP. This is because, according to the oil price assumptions (based on the path reflected in futures markets), the rate of change of the energy component will follow a downward trend, and will be negative in 2020 and 2021.

The **risks surrounding the central GDP growth scenario** are tilted to the downside. They are essentially of external origin, especially notable being the possible adoption of further protectionist measures at global level and the uncertainty regarding the United Kingdom's departure from the European Union. In the domestic arena, a certain amount of uncertainty persists regarding the future economic policy stance, against a background in which, as in recent years, Parliament remains highly fragmented.

**With regard to inflation**, a hypothetical materialisation of the risks to activity described above would probably lead to lower price growth than anticipated. Also, the projected rise in core inflation is based on the assumption made regarding the magnitude of the response of inflation to a reduction in the economy's degree of slack, but this continues to be subject to a high degree of uncertainty.