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Briefing note on the macroeconomic projections for the Spanish economy (2017-2019)

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2017-2019, published today by the Banco de España on its website (available at this [link](#)).¹ These projections are the contribution of the Banco de España to the Eurosystem's joint projection exercise, the results of which for the euro area as a whole were published by the ECB on 8 June (available at this [link](#)).

The projections envisage **continuation of the upturn** in the Spanish economy during the period 2017-2019, underpinned by the competitiveness gains accumulated since the start of the crisis, the progress made in private sector deleveraging and the presence of favourable financial conditions, to which the accommodative monetary policy stance contributes. Activity and employment growth are expected to moderate over the projection period, as the lagged effects of certain expansionary stimuli that have operated in the past finally peter out.

GDP growth is projected to be 3.1 % this year, moderating to 2.5 % and 2.2 % in 2018 and in 2019, respectively. In comparison with the last projections, published on 3 April, these figures amount to **upward revisions of 0.3 percentage points (pp) in the GDP growth projected for both 2017 and 2018**. These changes stem from recent domestic and international developments that have been more favourable than anticipated, and from the updating of the technical and external assumptions on which the projections are based, which have led to upward revisions in the various components of demand.

GDP growth will continue to be underpinned by national demand, although the slowdown in the latter in 2016 is projected to continue. For its part, **net external demand is expected to continue to make a positive contribution** throughout the projection horizon.

The projections incorporate **continued high rates of job creation**, which moderate over the projection period in line with the expected trend in activity. The increase in employment will **reduce the unemployment rate further**, to around 13 % at the end of 2019.

¹ These projections incorporate the changes observed up until 16 May in the technical assumptions and in the forecasts for the external environment, as well as the new information available up until the cut-off date of the exercise, which was 23 May. It should be noted that the breakdown of the Quarterly National Accounts for the first quarter of the year was published by the INE after this latter date, and therefore the projections do not include this information.

As regards inflation, following the sharp rise in the consumer price index (CPI) at the beginning of 2017, **a slowdown is projected for the rest of the year**, as a result of the downward path of the energy component. By contrast, a moderately rising trajectory is projected for core inflation, owing to the narrowing of the negative output gap. As a result, **the CPI is expected to rise by 2 % in 2017**, in annual average terms, with more moderate increases thereafter, **of 1.3 % in 2018 and 1.6 % in 2019**. In comparison with the March projections, overall inflation in 2017 has been revised downwards by 0.2 pp, owing to the fact that consumer prices have recently behaved less dynamically than was expected in March and that, according to futures markets, oil prices are expected to be lower.

The **risks surrounding the baseline scenario for GDP growth are moderately tilted to the downside**, mainly **in relation to the external setting**, as a result of a possible increase in trade protectionism, a hypothetical further tightening of global financial conditions and the uncertainty associated with Brexit. **Domestically**, there continue to be a number of uncertainties regarding the course of economic policy. High public debt underlines the need to comply with the fiscal consolidation path set, taking advantage of the current setting of high growth and low interest rates, in order to moderate future financial costs, reduce the vulnerability of the economy to a possible tightening of financing conditions and to re-establish some scope for fiscal policy to react to possible shocks. Moreover, an improvement in the outlook for growth in activity and employment in the Spanish economy in the medium and long-term requires pressing ahead with the implementation of structural reforms in various areas.

In relation to inflation, the risks of deviation are moderately tilted to the downside. On the external side, the negative balance reflects the hypothetical materialisation of the risks to activity described above. From the domestic viewpoint, the projections are based on the assumption that the reduction in the degree of cyclical slack will be translated into a rise in core inflation, but this increase may not fully materialise, in a setting in which the volume of unused resources is still significant. Thus, there is a risk that core inflation will not increase as strongly as expected, in line with the evidence built up over the last two years.