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Briefing note: Macroeconomic projections for the Spanish economy (2016-2019): the Banco de España's contribution to the Eurosystem's December 2016 joint projection exercise

This note describes the main features of the macroeconomic projections for the Spanish economy for the period 2016-2019 released today by the Directorate General Economics, Statistics and Research (DGEE, by its Spanish abbreviation) of the Banco de España on its website ([enlace](#)). These projections are the contribution made 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 released by the ECB on 8 December. These are the first projections released by the DGEE for 2019. The projections incorporate the changes observed in the technical assumptions and in the outlook for the international environment, and in the fiscal assumptions, up to 17 November, and the new information available up to the cut-off date for the exercise, which was 24 November. Significantly, the projections do not include the budgetary measures approved by the Council of Ministers on 2 December since they were adopted after the cut-off date.

Over the next three years the Spanish economy is expected to continue to grow, supported by the monetary stimulus measures and the steps taken to correct some of the main economic imbalances, especially the headway made in the processes of deleveraging private agents and regaining international competitiveness. In any event, the rate of growth is expected to slow somewhat in 2017, in a setting in which the recent path of oil prices and the end of the expansionary fiscal policy stance of the last two years will call a halt to some of the momentum that has been fed into the economy in the recent period. Accordingly, **after reaching 3.2 % for the second consecutive year in 2016, average GDP growth is expected to slip to 2.5 % in 2017, and to 2.1 % in 2018 and 2 % in 2019.**

Given the composition of aggregate demand, **GDP growth is expected to continue to be underpinned by domestic expenditure**, while **the contribution of net foreign demand will remain positive**, but will decline over the projection horizon.

After falling by an estimated 0.3 % in 2016, consumer prices should rise by 1.6 % in 2017, reflecting a notable increase in the energy component and moderate acceleration in the index excluding unprocessed food and energy. In the next two years consumer prices should rise at annual average growth rates **of 1.5 % in 2018 and 1.7% in 2019.**

As is customary in expansionary periods in Spain, **employment** creation is expected to remain high in proportion to the pace of GDP growth, helping to bring down the **unemployment rate**, which **by the end of the projection horizon should be slightly less than 15 % of the labour force**.

The **risks** surrounding the **baseline GDP growth scenario are mainly tilted to the downside**, predominantly **linked to the international setting**. In particular, in recent months there has been heightened uncertainty as to the thrust of global economic policies -especially in the United States- and this could ultimately have an adverse impact on the world economy. In the euro area, apart from the uncertainty prompted by various upcoming national elections, there is also uncertainty arising from the impending negotiations for the United Kingdom's exit from the European Union.

In the **domestic arena**, the uncertainty surrounding the future course of economic policy has started to fade now that Spain has a new government. Indeed, in the realm of fiscal policy, there have already been changes, with several budgetary measures having been approved subsequent to the cut-off date for these projections. The resumption of budgetary consolidation, which could mean that economic growth may be somewhat more sluggish than projected in the short term, is critical to reduce the vulnerability of the Spanish economy to possible changes in financing conditions on the international markets. However, the uncertainties regarding the structural reform agenda remain. These reforms are essential to foment productivity gains and the functioning of the product and labour markets. In this respect, the early adoption of measures along these lines would spur economic growth and lessen the Spanish economy's vulnerability to external shocks.

The risks of deviation from the inflation projections are also tilted to the downside, essentially in the event that the adverse contingencies for economic growth described above should materialise. On the upside, the recent uptick observed in the energy component of inflation may trigger a higher impact on consumer prices of other goods than that considered in the baseline scenario. In addition, the oil price assumptions on which the projections are based do not include the bullish impact of the OPEC member countries' agreement to limit oil production, as that agreement was reached on 30 November, after the cut-off date for the baseline scenario for the projections.