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Briefing note on macroeconomic projections for the Spanish economy (2018-21): the Banco de España's contribution to the Eurosystem's December 2018 joint forecasting exercise

This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2018-21 which the Banco de España has published today on its website (available at this [link](#)). These projections include the new information that has become available since the previous projections were published in [September](#).

The projections point to a **continuation of the current cyclical upturn**, against the backdrop of a continuing accommodative monetary policy stance, a strengthening of agents' financial position and, in the near term, an expansionary fiscal stance, in keeping with the fiscal measures implemented following approval of the 2018 State Budget, and the recent drop in oil prices. However, **GDP growth is expected to decelerate** over the projection horizon, as a result of the gradual easing of the positive effects of monetary policy measures on financing conditions in the economy.

On balance, **after increasing by 3% in 2017, the rate of growth of GDP is expected to moderate, to 2.5% in 2018, 2.2% in 2019, 1.9% in 2020 and 1.7% in 2021**. Compared with the [previous projections](#), **GDP growth has been revised down slightly, by 0.1 pp in 2018 and a further 0.1 pp in 2020**. The reason for the 2018 change is that, on the latest data, GDP growth in the first half of the year was lower than previously estimated. The reason why the 2019 projection remains unchanged is that there are several factors that balance each other out. On the one hand, activity is currently slightly more dynamic than forecast in previous months, assisted by the positive effects of the recent fall in oil prices; on the other hand, external market valuations are more negative than in September and this explains the downward revision in 2020.

GDP growth will continue to be based on national demand, which is, however, expected to decelerate in the coming years. In turn, **the negative contribution of net external demand in 2018 will ease from 2019, turning slightly positive** at the end of the projection horizon.

The projections point to a moderation in employment growth, which has been very high in recent years. This deceleration in employment is expected to outpace the slowdown in GDP growth in 2019, given that the projections' baseline scenario includes the effects of the increase announced, but not yet approved, in the national minimum wage for 2019. Overall,

net job creation should lead to a **further decline in the unemployment rate**, down to slightly above 12% by the end of 2021.

Regarding inflation, the harmonised index of consumer prices (HICP) is **expected to decelerate in the coming quarters**, linked to a lower contribution from the energy component. **In the medium term the dynamics of the core component, for which a gradual increase is forecast**, are expected to become predominant, as the positive output gap widens and the pace of growth of unit labour costs gradually steps up. In terms of the annual average rate of change, **the HICP is forecast to grow by 1.8% in 2018, and then by 1.6% in 2019 and 2020, before posting a minor increase, to 1.7%, in 2021. The inflation projections have been revised only modestly – down 0.1 pp in 2019 and up 0.1 pp in 2020** – mainly reflecting the new oil price path expected based on oil futures.

The **risks to the baseline scenario for GDP growth** are on the downside. This is mainly on account of the external environment, including a possible resurgence of financial tension associated with the economic policy mix in the United States (and its potential effects on the more vulnerable emerging economies) and a hypothetical escalation in the adoption of protectionist measures that could affect trade and global activity. In Europe, the vagaries of Italian budgetary policy and the uncertainty surrounding the outcome of the Brexit process are further sources of risk. On the domestic front, the current parliamentary fragmentation could hinder the introduction of structural reforms and hold back the fiscal consolidation process, with the consequent adverse effects on agents' confidence. Moreover, a hypothetical resurgence of uncertainty regarding the political situation in Catalonia cannot be ruled out.

With regard to inflation, the risks of departure from the baseline scenario are also on the downside, as a result of a hypothetical materialisation of the risks to activity described above.