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Briefing note

Macroeconomic projections for the Spanish economy (2019-2022)

This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2019-2022 published today on the Banco de España website (available at this [link](#)). These projections incorporate the new information that became available between the publication of the last projections in **September** and 27 November, the cut-off date of this exercise.

The current projections point to a **prolongation of the current expansionary period** over the forecast horizon. Growth will continue to be based fundamentally on domestic demand, the buoyancy of which will stem, inter alia, from the improvements in recent years in the financial position of households and firms and the accommodative stance of the European Central Bank's monetary policy, which is conducive to the maintenance of favourable financial conditions.

In any case, GDP growth is projected to continue to follow a **path of gradual slowdown** over the projection horizon, as it has since mid-2017. In terms of average annual rates, GDP growth is expected to stand at 2% in 2019 (down 0.4 percentage points from 2018), and to moderate to rates of 1.7%, 1.6% and 1.5% in each of the following three years. This slowdown would be consistent with a gradual convergence of the economy's growth rate to its potential rate.

In comparison with the last projections, the GDP growth projection is unchanged over the projection horizon, as the effects of the various factors observed (which are in any case, relatively small) offset each other. In particular, although export markets are now projected to recover less strongly than was anticipated in September, the latest data suggest that GDP growth stabilised in the second half of the year, as compared with the slight weakening suggested by the conjunctural information available when the last projections were prepared.

In line with the slowdown in activity, **the pace of employment creation is projected to moderate gradually**. The latest labour market indicators are consistent with this progressive slowdown. Job creation, however, is projected to lead to a decline in the rate of unemployment to around 12.5% by the end of 2022, despite the increase in the labour force.

The gradual widening of the output gap and the labour cost increases projected will result in **greater upward pressure on prices** during the period 2020-2022. The expansionary stance of monetary policy (and, in particular, the measures recently adopted in this area) will also contribute to the upward profile of inflation. Accordingly, the HICP is projected to rise gradually, in annual average terms, from 0.8% in 2019 to 1.6% in 2022, while core inflation rises from 1.1% to 1.7% over the same period.

In this baseline scenario, **the risks to economic growth are tilted to the downside**. Their source is essentially external. In particular, despite some recent signs of stabilisation, it is not possible to rule out further negative surprises in relation to global activity and trade, which could hinder the recovery in foreign markets projected in the baseline scenario. Other sources of uncertainty are the lack of detail regarding the United Kingdom's exit from the European Union and a hypothetical resurgence of geopolitical tensions in certain regions. Domestically, the uncertainty regarding the future economic policy stance and, in particular, the definition of the elements necessary to resume budgetary consolidation persist.

The risks to the baseline scenario for inflation are also tilted to the downside and arise primarily from a hypothetical materialisation of the risks to activity described above. Also, the possibility that core inflation will rise during the projection horizon depends on the degree of sensitivity of prices to the cyclical improvement in activity, something that is subject to considerable uncertainty.