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Briefing note on the macroeconomic projections for the Spanish economy 2018-2020

This note describes the key features of the macroeconomic projections for the Spanish economy over the period 2018-2020, published today by the Banco de España on its website (available at this [link](#)). In contrast to the [December](#) projections, these include the Quarterly National Accounts for the last quarter of 2017 and incorporate the changes observed in the technical assumptions.¹

The projections envisage **a prolongation of the current expansionary phase**, supported by progress made correcting the economy's macrofinancial imbalances, including most notably, private sector deleveraging and achieving persistent current account surpluses. Certain more temporary factors are also projected to help boost activity, such as stimuli from demand-side policies. In this context, a slightly more expansionary fiscal policy stance is anticipated over the projection horizon, compared with the broadly neutral stance seen in 2017, given that the baseline scenario factors in the recent agreement on public sector pay and employment between the Government and the main trade union organisations for the period 2018-2020. In any event, the absence of a State Budget for 2018 at the time when these forecasts were being drawn up makes for a high degree of uncertainty over the final fiscal policy stance.

Thus, **after expanding by 3.1 % in 2017, GDP is expected to grow by 2.7 % in 2018, by 2.3 % in 2019 and by 2.1 % in 2020**. Compared with the [previous projections](#), **GDP growth has been revised up by 0.3 pp, 0.2 pp and 0.1 pp** in each of the three years of the projection, as the recent performance of both the Spanish economy and its main export markets was more favourable than anticipated at the end of 2017, budgetary policy is more expansionary than anticipated three months ago and the political situation with respect to Catalonia is having a slightly less negative impact than was assumed in the baseline scenario of the previous projections.

Domestic demand will continue to support GDP growth, although a slight slowing of the various components of domestic demand is forecast over the next few years. Meanwhile, **net external demand will continue to make a positive**, albeit slightly smaller, **contribution**.

¹The cut-off date for the preparation of these assumptions is 9 March, with the exception of the assumptions concerning external markets, which date from 13 February when the [ECB staff macroeconomic projections for the euro area, March 2018](#) were being prepared. The cut-off date for new data for the projections is 13 March.

Employment growth over the course of the projection horizon is expected to moderate from the high growth rates observed in the last three years, in line with the projected slowing of activity. Sustained job growth will give rise to **further decreases in the unemployment rate**, bringing it close to 11 % by the end of 2020.

A certain amount of variability in consumer prices (CPI) is forecast for 2018 in year-on-year terms, as a result of the base effects associated with energy prices. The **subsequent** path of the CPI is likely to be dominated by the core component, which is projected to **rise gradually** in a context of a widening positive output gap. In terms of the annual average rate, after a **2 % rise in 2017, CPI growth is forecast to slow to 1.2 % in 2018, subsequently accelerating to 1.4 % and 1.7 % in 2019 and 2020, respectively**. In the current projections, **headline inflation has been revised down by 0.2 pp in 2018** as the recent behaviour of the energy component was somewhat less dynamic than projected in December. No significant changes are envisaged over the following two years.

On the external front, the **risks to the baseline GDP growth scenario** are tilted to the upside in the near term, against the backdrop of a series of recent positive surprises concerning the global economy's growth rate, suggesting that its expansionary momentum may last longer than considered in the baseline scenario of these projections. By contrast, various downside risks persist over the medium term, above all the potential impact on global financial conditions of monetary policy normalisation in the advanced economies (particularly in the United States), as highlighted by the bout of financial market tension in early February. There is also a possibility that the protectionist measures being applied by some of the main economies may be stepped up. In addition, a number of uncertainties remain, such as the lack of clarity over the final framework for the relationship between the United Kingdom and the European Union and the formation of a government in Italy following the March elections. In the opposite direction, the agreement to form a new coalition government in Germany suggests that the country's fiscal policy may take a more expansionary stance, with positive effects on the rate of GDP growth across the euro area as a whole. On the domestic front, a slight decrease in the uncertainty in Catalonia has recently been discerned, but a resurgence of tensions cannot be ruled out, which would have a negative impact on confidence and activity. Moreover, some recent announcements suggest that budgetary consolidation efforts may be easing in the short term, beyond the measures already factored into the baseline scenario. This hypothetical easing would lead to a more expansionary budgetary policy which, in a macroeconomic environment characterised by a widening positive output gap, would make it procyclical. That would delay the reduction in the budget deficit in structural terms, and slow the process of reducing the public debt ratio, which is necessary to mitigate the economy's vulnerability and to restore the stabilising capacity of the government budget in the event of adverse shocks.

The risks affecting **inflation** are generally balanced, in a context in which doubts persist in many advanced economies, including Spain, about the degree to which prices and wages will respond to changes in the cyclical position of the economy and the labour market.