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

This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2018-2020, published today by the Banco de España on its website (available at this [link](#)). In comparison with the [June](#) projections, the current exercise incorporates information from the Quarterly National Accounts to the end of 2018 Q2, together with the changes observed in the technical assumptions¹.

The projections point to a **continuation of the current expansionary phase**, supported by progress made restoring the economy's macro-financial equilibrium, endowing it with greater resilience to adverse shocks. However, **GDP growth is expected to moderate** over the projection horizon in a context of diminishing additional positive impacts on agents' financing conditions of past monetary policy measures and in which the current expansionary fiscal policy stance will tend to become neutral by the end of the projection period, on the basis of the technical assumptions. Spanish households are also expected to start to reverse the past decline in the saving rate, translating into a slight moderation in private consumption.

Against this backdrop, **after 3% growth in 2017, gross domestic product (GDP) is forecast to slow to 2.6% in 2018, 2.2% in 2019 and 2% in 2020**. Compared with the [previous forecasts](#), **GDP growth has been revised down by 0.1 pp, 0.2 pp and 0.1 pp for 2018, 2019 and 2020**, respectively, mainly to reflect the worsening outlook for external markets and, to a lesser extent, the small expected rise in the oil price trajectory.

As is usually the case in upturns in the Spanish economy, **the employment content of growth** is projected to remain **strong**, which will lead to **a further drop in the unemployment rate**, which is expected to be slightly below 12% by the end of 2020.

As regards inflation, a deceleration is forecast in the harmonised index of consumer prices (HICP) **over the coming quarters**, on the back of the energy component, which is, in turn, explained by the course of oil prices. By contrast, **core inflation is expected to rise progressively**, in line with the gradual acceleration in unit labour costs, against the backdrop of rising capacity utilisation. In annual average terms, **HICP inflation is expected**

¹ The cut-off date for the preparation of the assumptions was 14 September, except for assumptions regarding developments in external markets, which date from 21 August and were prepared by ECB staff as part of the [September 2018 ECB staff macroeconomic projections for the euro area](#). The closing date for new information for preparation of the projections is 21 September.

to rise by 1.8% in 2018, then moderate to growth of 1.7% and 1.5% in 2019 and 2020, respectively. The current inflation projections represent **a slight downward revision**, which is mainly explained by the fact that the recent performance of certain core inflation components, such as services, has been less dynamic than previously forecast, suggesting that these prices are responding less strongly to the upswing in activity than projected to date.

The **risks to the baseline scenario for GDP growth** are on the downside. On the external front, it is possible that, beyond the effects already observed, the repercussions of the US economic policy mix on global financial conditions or the escalation of trade protectionism measures may have an adverse impact on the world economy. On the domestic front, uncertainty persists regarding the future economic policy stance, against a backdrop of high parliamentary fragmentation. On the one hand, the limited progress made to date in the necessary process of correcting the high level of public debt remains an important element of vulnerability. On the other, it is necessary to reinstate a structural reform agenda to drive economic growth potential and employment in Spain. Lastly, a hypothetical increase in uncertainty associated with the tense political situation in Catalonia poses an added risk to economic growth, especially in Catalonia itself.

On the inflation front, the risks to the baseline scenario are slightly on the downside, in view of a hypothetical materialisation of the risks of the same sign weighing on activity. By contrast, if any of the latent geopolitical conflicts were to intensify, oil prices could rise.