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Briefing note: Macroeconomic projections for the Spanish economy 2016-2018.

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2016-2018, published today by the Directorate General Economics, Statistics and Research of the Banco de España on its website (available at this [link](#)).

According to these projections, **the expansionary phase of the Spanish economy** is expected to continue, albeit at a lesser pace than that observed in recent times. Specifically, **GPD growth is projected to stand at 3.2 % this year**, and to slow to **2.3 % and 2.1 % in 2017 and 2018, respectively**. This slowdown is explained by the diminished momentum of certain factors that have boosted activity in the recent phase, such as the fall in oil prices and in interest rates, the depreciation of the euro and the expansionary fiscal policy stance of the last two years.

Compared with the previous projections, published on 7 June, these figures represent **an increase of 0.4 pp in the rate of GDP growth projected for this year**. Behind this revision lies the more favourable course of activity in both Q2 and the rest of the year, compared with expectations in June. However, **expected growth rates for the next two years remain unchanged**. **For 2017, the projected growth rate of Spanish export markets** has been revised downwards, chiefly as a result of the foreseeable effects of the results of the United Kingdom referendum on leaving the European Union. Moreover, **oil prices are somewhat higher** than in the June projection exercise. The negative impact of these changes on GDP growth is offset by the positive effect of **further easing of the financing conditions for resident agents and, above all**, by the carryover effect of the **improved estimated GDP growth rate for 2016 on the rate for next year**. **In 2018**, the impact on activity of the changes in the external assumptions considered as a whole is almost neutral with respect to the June estimates.

In terms of components, GDP growth during the projection horizon will be determined by the buoyancy of private national demand, both as regards consumption and investment. However, private spending will tend to exhibit less buoyant behaviour from next year. The contribution of net external demand to GDP growth, which was negative in the 2014-2015 period, will turn neutral or moderately positive over the projection horizon.

In the labour market, **jobs are expected to continue to be created at a high rate**, with low growth in apparent labour productivity, as is customary in upturns in the Spanish

economy. Job creation will **allow further reductions in the unemployment rate**, bringing it down to slightly below 17 % of the labour force at end-2018.

As to prices, **after recording a decline of 0.3 % in 2016, the CPI is expected to increase by around 1.5 % in 2017, and by a further 0.1 pp in 2018**, in line with the projected recovery for oil prices and the expected gradual rise in core inflation as a result of the increase in the degree of capacity utilisation. Set against the June projections, inflation is revised upwards by 0.3 pp and 0.1 pp in 2016 and 2017, respectively, essentially as a result of the upward revision in the path of oil prices.

The risks surrounding the baseline scenario for GDP growth remain tilted, as in June, to the downside. On the external front, the risks relate to developments in some emerging economies, to the persistence of certain geopolitical tensions, and to the United Kingdom leaving the European Union. On the upside, there is a possibility that the positive impact of the monetary policy measures implemented in the last two years will be greater than assumed in the baseline scenario. **Domestically**, the downside risks relate to the uncertainty surrounding the future course of economic policies stemming from the Government's current interim status, both as regards the fiscal consolidation path and economic reform. Specifically, given the lack of available information, these projections do not include the consolidation measures needed to strengthen the sustainability of public finances and to ensure compliance with the fiscal targets agreed by the EU Council.

With regard to inflation, the risks of deviation are moderately tilted to the downside, as a consequence of a hypothetical materialisation of a more unfavourable global growth scenario. Nonetheless, the expansionary monetary policy measures might drive inflation above the baseline scenario projection.