

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY

2018-2021

DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH

14 December 2018

OVERVIEW

- **Activity:**

- *A continuation of the expansionary phase is projected, at a lesser pace than in recent years.*
- *Growth is revised slightly downwards over the projection horizon as a whole, against a less favourable background in external markets than in September.*

- **Prices:**

- *In the coming quarters inflation will ease, owing to the lesser contribution of the energy component.*
- *In parallel, a gradual increase in the core component is projected, which will begin to dominate the trend of the overall indicator from mid-2019 and which is due to the growing use of the productive factors.*

Annual rate of change (%)

December 2018 projections

	2017	2018	2019	2020	2021
GDP	3.0	2.5	2.2	1.9	1.7
Employment	2.9	2.5	1.6	1.6	1.6
HICP (inflation)	2.0	1.8	1.6	1.6	1.7

Projections cut-off date: 28 November 2018.

CHANGES IN THE ASSUMPTIONS

- Main changes: downward revision of oil prices and of the growth of external markets in 2018-2019.
- Other changes with a lesser impact: depreciation of the euro and upward revision of long-term interest rates.

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

	2017	Current projection				Difference between the current projection and those made in September 2018		
		2018	2019	2020	2021	2018	2019	2020
International environment								
World output	3.6	3.6	3.3	3.4	3.3	-0.1	-0.1	0.0
Spain's exports markets	4.9	3.1	3.3	3.7	3.4	-0.4	-0.5	0.1
Oil price in dollar/barrel (level)	54.4	71.8	67.5	66.8	65.9	-1.5	-8.0	-5.1
Monetary and financial conditions								
Dollar/euro exchange rate (level)	1.13	1.18	1.14	1.14	1.14	-0.01	-0.03	-0.03
Spain's nominal effective exchange rate vis-à-vis the world including the euro area (2000 = 100 and percentage differences)	114.6	117.9	118.0	118.0	118.0	0.0	-0.5	-0.5
Short-term interest rate (3-month EURIBOR)	-0.3	-0.3	-0.3	0.0	0.3	0.0	0.0	-0.1
Long-term interest rate (10-year bond yield)	1.6	1.4	1.8	2.2	2.5	0.0	0.1	0.1

The cut-off date for the technical assumptions, including those for the external setting, is 21 November 2018. Differences with respect to 14 September 2018.

REVISIONS RELATIVE TO SEPTEMBER

➤ Activity:

- *Downward revision associated with the worsening of external markets, countered in part, among other factors, by the positive effect of lower oil prices.*

➤ Prices:

- *Scant changes in the projection of the overall HICP motivated mainly by the energy component: lower contribution in the short term (due to the recent decline in oil prices), but greater in the medium term (owing to the less declining slope of the futures curve).*

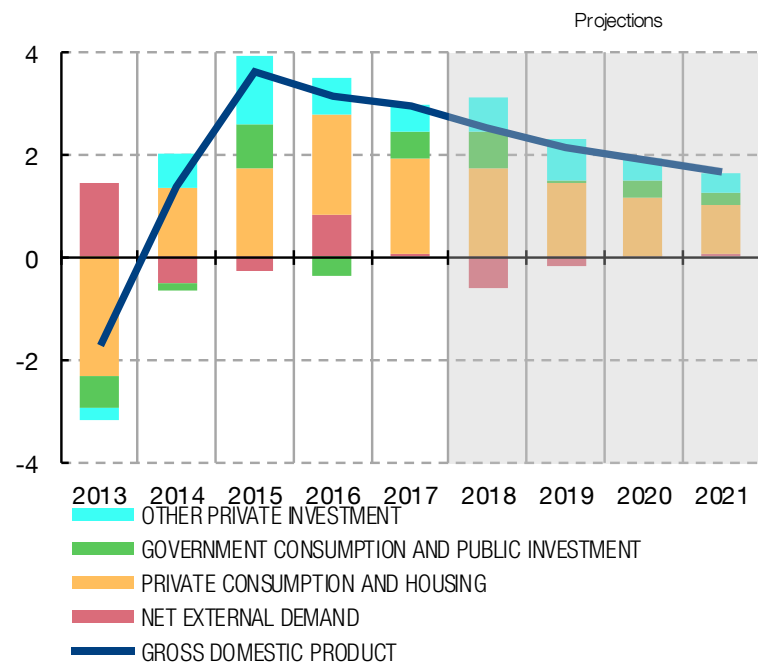
Annual rate of change (%)	December projections					September projections			Revisions (pp)		
	2017	2018	2019	2020	2021	2018	2019	2020	2018	2019	2020
GDP (real)	3.0	2.5	2.2	1.9	1.7	2.6	2.2	2.0	-0.1	0.0	-0.1
CPI (inflation)	2.0	1.8	1.6	1.6	1.7	1.8	1.7	1.5	0.0	-0.1	0.1

COMPOSITION OF GDP GROWTH

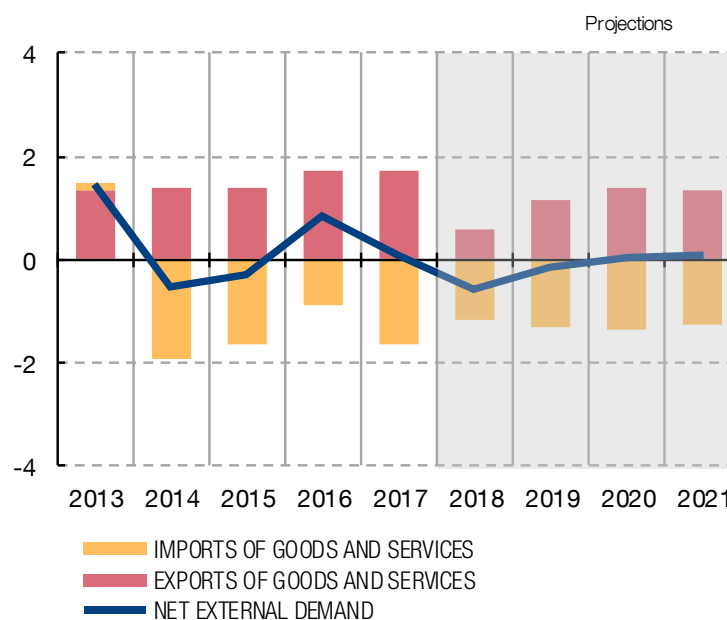


- The expansion in output will continue to be underpinned by national demand, a slowdown in all of whose components is projected.
- Net external demand will exert a negative contribution in 2018, which will ease in 2019 and turn slightly positive towards the end of the projection horizon.

GDP GROWTH (%) AND CONTRIBUTIONS (pp)



NET EXTERNAL DEMAND AND CONTRIBUTIONS (pp)

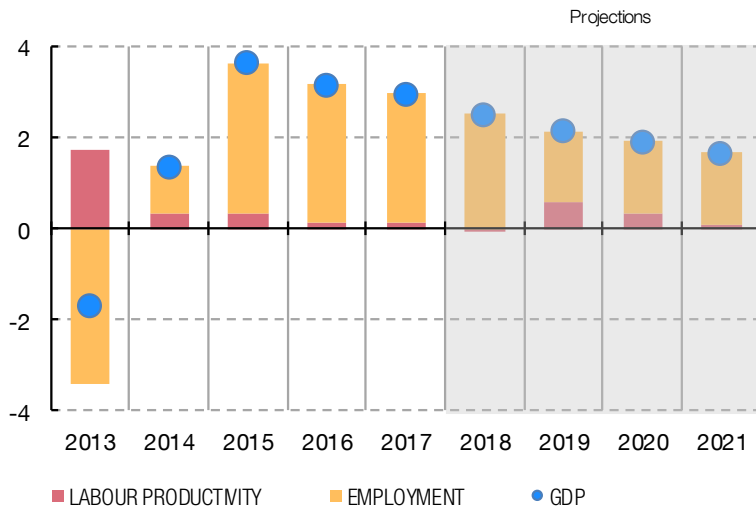


EMPLOYMENT AND UNEMPLOYMENT

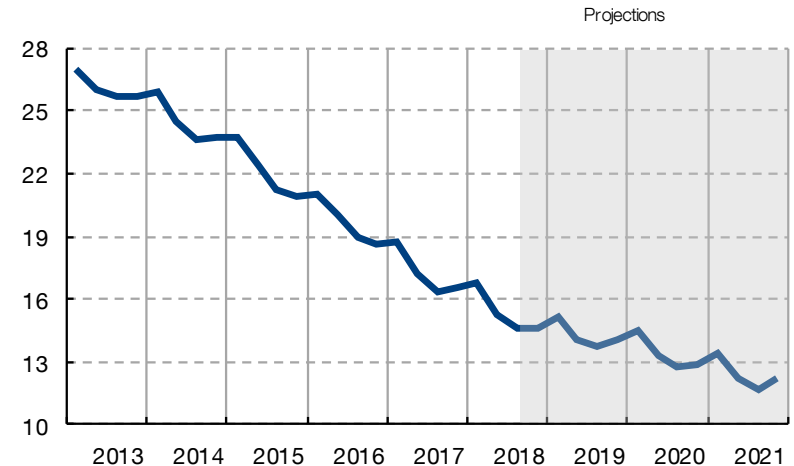


- As is usual in expansionary phases of the Spanish economy, scant growth in apparent labour productivity is projected; this variable will, however, rise in 2019 as a result of the effects on the level of employment associated with the increase in the minimum wage.
- Employment creation will prompt fresh declines in the unemployment rate, taking it to slightly over 12% at end-2021, against a backdrop of low increases in the labour force.

GDP GROWTH (%)
Contributions of employment and labour productivity (pp)



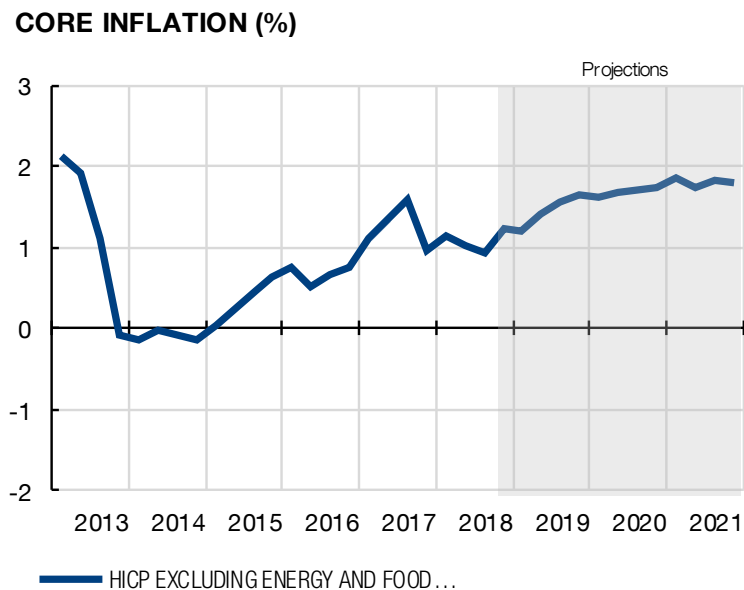
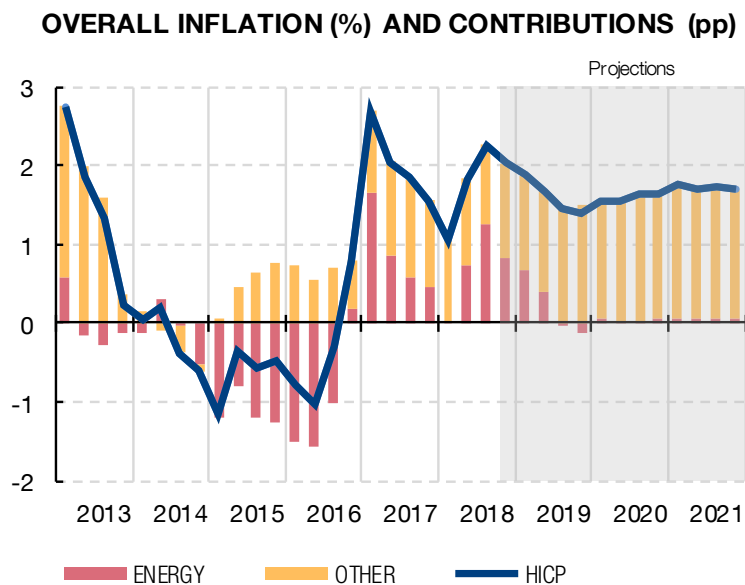
UNEMPLOYMENT RATE
(% of the labour force)



INFLATION PATH



- Overall inflation will ease in the coming quarters, and rise thereafter, stabilising at 1.7% towards the end of the projection horizon.
- The energy component will lose momentum during 2019, owing to the decline in oil prices and to base effects.
- Core inflation will gradually rise, in step with the widening of the positive output gap and with the progressive acceleration in unit labour costs.

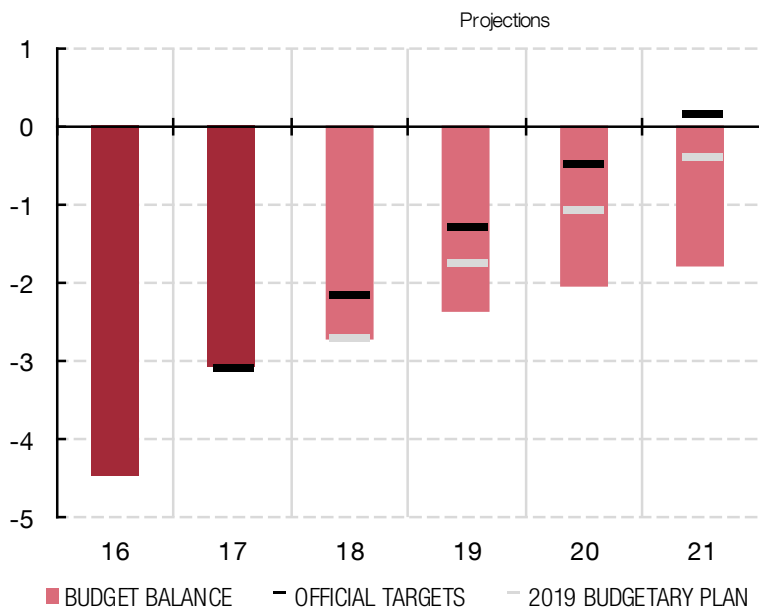


BUDGET DEFICIT AND PUBLIC DEBT

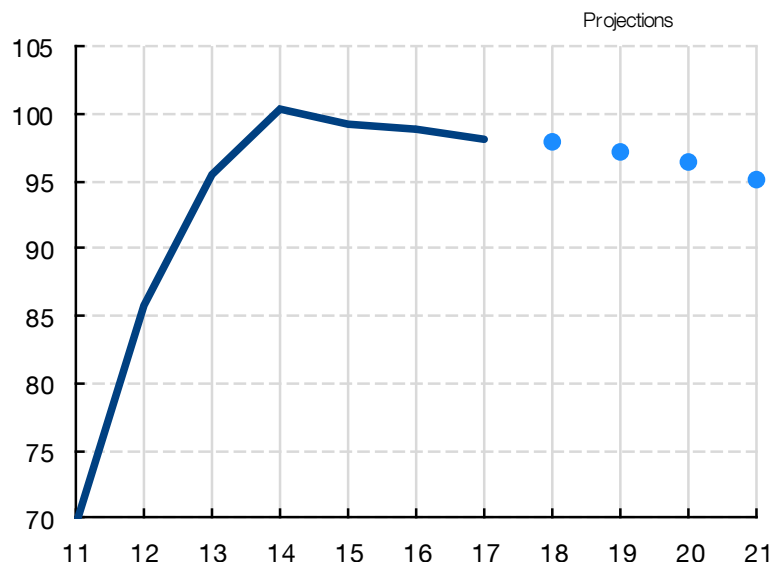


- A budget deficit of 2.7% of GDP is estimated for 2018, consistent with Spain's exit this year from the Excessive Deficit Procedure.
- The fiscal policy stance is projected to be expansionary in 2019, and neutral thereafter.
- Although the nominal growth of output accounts for a slightly declining path in the public debt ratio, its level in 2021 will continue to be excessively high.

GENERAL GOVERNMENT BALANCE (% of GDP)



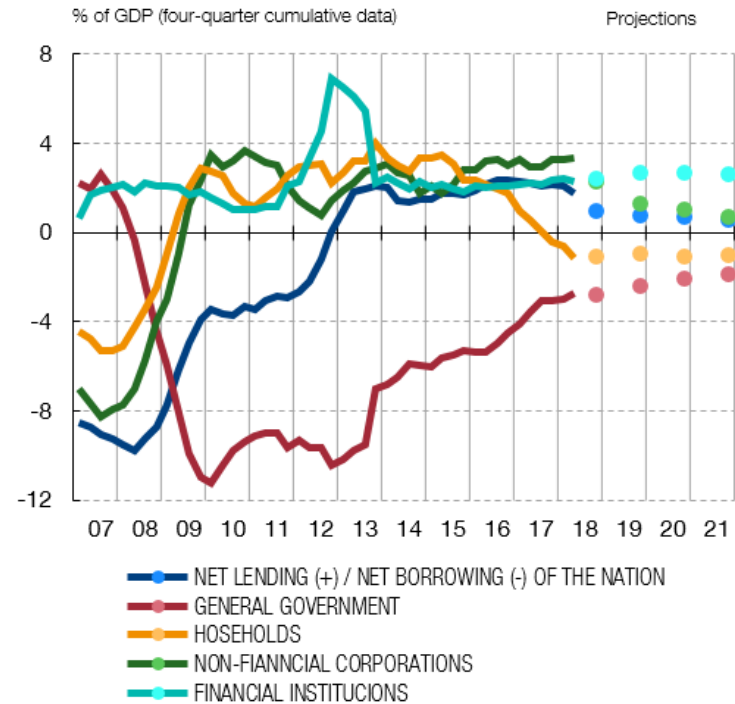
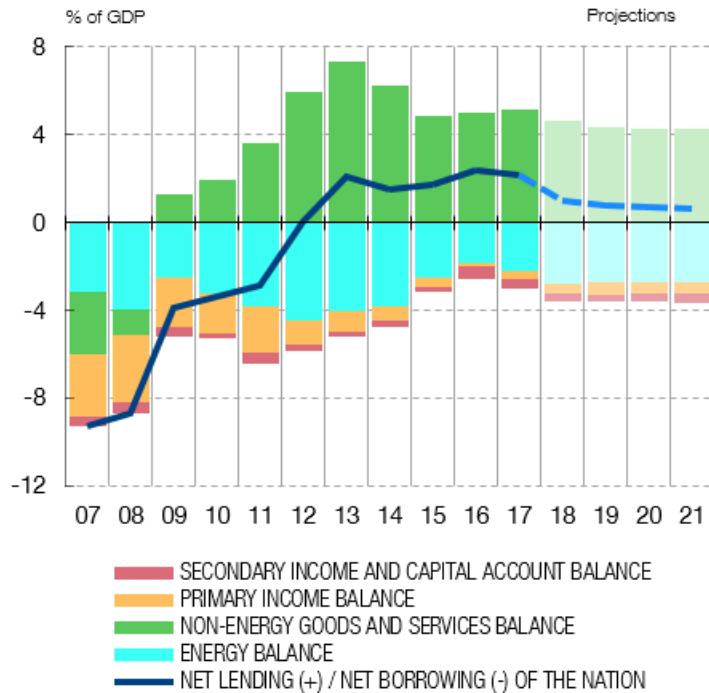
GENERAL GOVERNMENT DEBT (% of GDP)



THE ECONOMY'S NET LENDING POSITION



- A reduction in net lending to below 1% of GDP is projected, owing essentially to the worsening in the goods balance.
- In terms of sectors, a continuation of households' net borrowing is projected, against the background of notable dynamism in their investment and some rise in their saving. A decline in the net lending of non-financial corporations is projected.





Activity: downside.

- *In the external setting:*
 - *uncertainty over the effects of the US economic policy mix on global financial conditions (and, in particular, on the emerging economies),*
 - *hypothetical escalation of protectionist measures*
 - *potential financial strains associated with the outcome of Brexit and with budgetary uncertainty in Italy.*
- *On the domestic front:*
 - *Parliamentary fragmentation gives rise to uncertainty over the course economic policies will pursue,*
 - *a hypothetical rise in political uncertainty in Catalonia.*

Prices: downside.

- *hypothetical materialisation of the downside risks to activity*
- *two-way risks associated with the volatility of oil prices*

PROJECTIONS (2018-2021)



Annual rates of change in volume and % of GDP	2017	Projections				Difference between the current projections and those made in September 2018		
		2018	2019	2020	2021	2018	2019	2020
GDP	3.0	2.5	2.2	1.9	1.7	-0.1	0.0	-0.1
Private consumption	2.5	2.4	1.9	1.5	1.3	0.2	0.2	0.1
Government consumption	1.9	2.1	1.6	1.2	1.2	0.2	0.2	0.0
Gross fixed capital formation	4.8	6.2	4.7	3.6	2.7	1.1	0.7	-0.3
Investment in capital goods	5.7	7.8	5.9	3.8	3.0	2.7	2.1	0.1
Investment in construction	4.6	6.1	4.5	3.7	2.8	0.6	0.1	-0.7
Exports of goods and services	5.2	1.8	3.4	4.0	3.8	-0.8	-0.6	0.0
Imports of goods and services	5.6	3.8	4.1	4.1	3.8	0.7	0.1	0.2
National demand (contribution to growth)	2.9	3.1	2.4	1.9	1.6	0.4	0.3	0.0
Net external demand (contribution to growth)	0.1	-0.6	-0.2	0.0	0.1	-0.5	-0.2	-0.1
Nominal GDP	4.3	3.6	4.0	3.7	3.5	-0.1	0.1	-0.1
GDP deflator	1.2	1.0	1.8	1.8	1.8	0.0	0.1	0.0
Harmonised index of consumer prices (HICP)	2.0	1.8	1.6	1.6	1.7	0.0	-0.1	0.1
HICP excluding energy and food	1.1	1.1	1.4	1.7	1.8	0.0	0.0	-0.1
Employment (full-time equivalent)	2.9	2.5	1.6	1.6	1.6	0.1	-0.3	-0.1
Unemployment rate (% of labour force). End of period data	16.5	14.6	14.1	12.9	12.2	0.0	0.9	1.0
Nations's net lending (+) / net borrowing (-) (% of GDP)	2.2	1.0	0.8	0.7	0.6	-0.2	-0.3	-0.4
General government's net lending (+) / net borrowing (-) (% of GDP)	-3.1	-2.7	-2.4	-2.0	-1.8	0.0	0.1	0.2