BANCO DE ESPAÑA
Eurosistema

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY: 2018-2020

DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH

15 June 2018

OVERVIEW

- **Activity:**
  - *Continuation of the expansionary phase, albeit at a somewhat lower rate than in the recent past*
  - *Slight upward revision of GDP growth in 2019: the expansionary impact of the new fiscal measures is largely mitigated by the recent rise in oil prices*
- **Prices (CPI):**
  - *Rise to September 2018 owing to the energy component*
  - *Subsequently, on a relatively stable path (slowdown in the energy component but a rise in the core component owing to the growing use of productive factors)*
  - *Upward revisions in 2018 and 2019, reflecting above all the expected new trajectory of oil prices*

Annual rate of change (%)		June projections			March projections			Revisions (pp)		
	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
GDP (real)	3.1	2.7	2.4	2.1	2.7	2.3	2.1	0.0	0.1	0.0
CPI	2.0	1.9	1.7	1.6	1.2	1.4	1.7	0.6	0.4	0.0

Projections cut-off date: 31 May 2018.

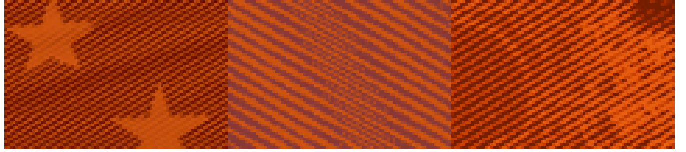
CHANGES IN THE ASSUMPTIONS

- Measures included in the draft State Budget for 2018
- Upward revision of oil prices
- Downward revision of the exchange rate of the euro against the dollar (less so in nominal effective terms)
- Downward revision in Spain’s export markets in 2018, owing to less dynamic recent developments in the euro area than previously anticipated

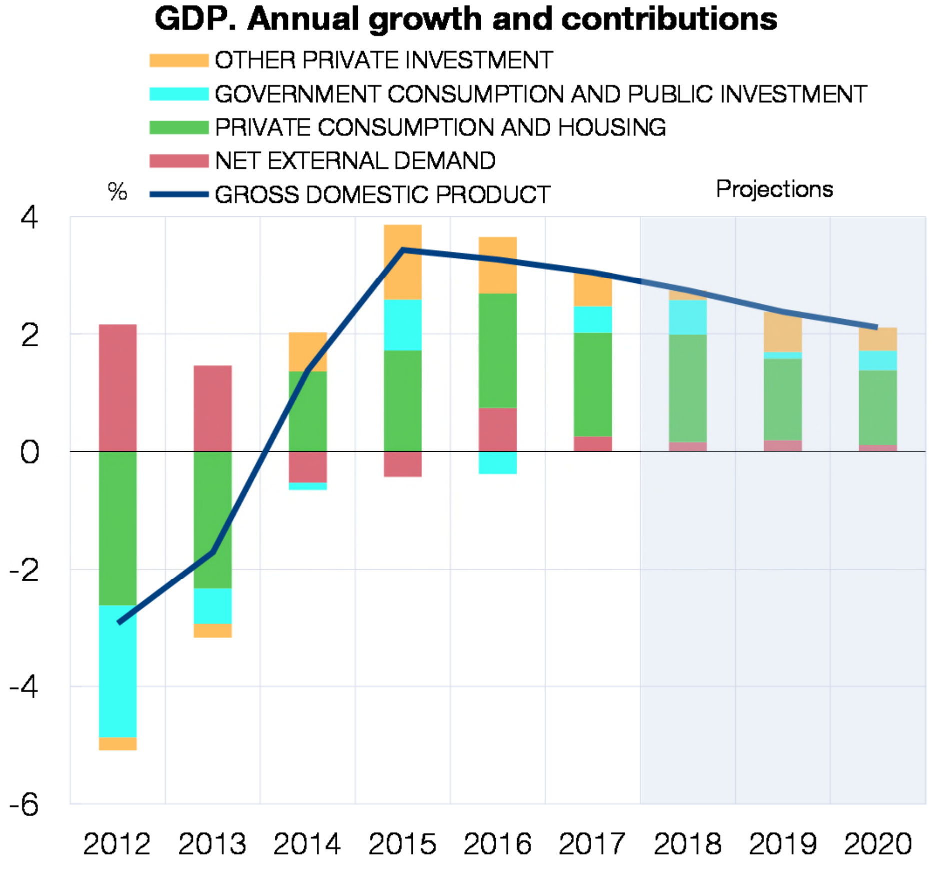
INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS Annual rate of change, unless otherwise indicated		Current projection			Differences from March 2018 projection		
	2017	2018	2019	2020	**2018**	**2019**	**2020**
International environment							
Global output	3.6	3.8	3.6	3.5	**-0.1**	**-0.1**	**0.0**
Spain's export markets	5.0	4.4	4.3	3.7	**-0.6**	**0.1**	**0.1**
Oil price in dollars/barrel (level)	54.4	74.5	73.5	68.7	**10.1**	**12.5**	**9.6**
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.13	1.20	1.18	1.18	**-0.03**	**-0.05**	**-0.05**
Nominal effective exchange rate against non-euro area (2000 = 100 and percentage differences)	117.0	122.8	121.8	121.8	**-1.8**	**-2.6**	**-2.6**
Short-term interest rates (3-month EURIBOR)	-0.3	-0.3	-0.2	0.2	**0.0**	**-0.1**	**-0.2**
Long-term interest rates (10-year bond yield)	1.6	1.5	1.9	2.2	**0.0**	**0.0**	**0.0**

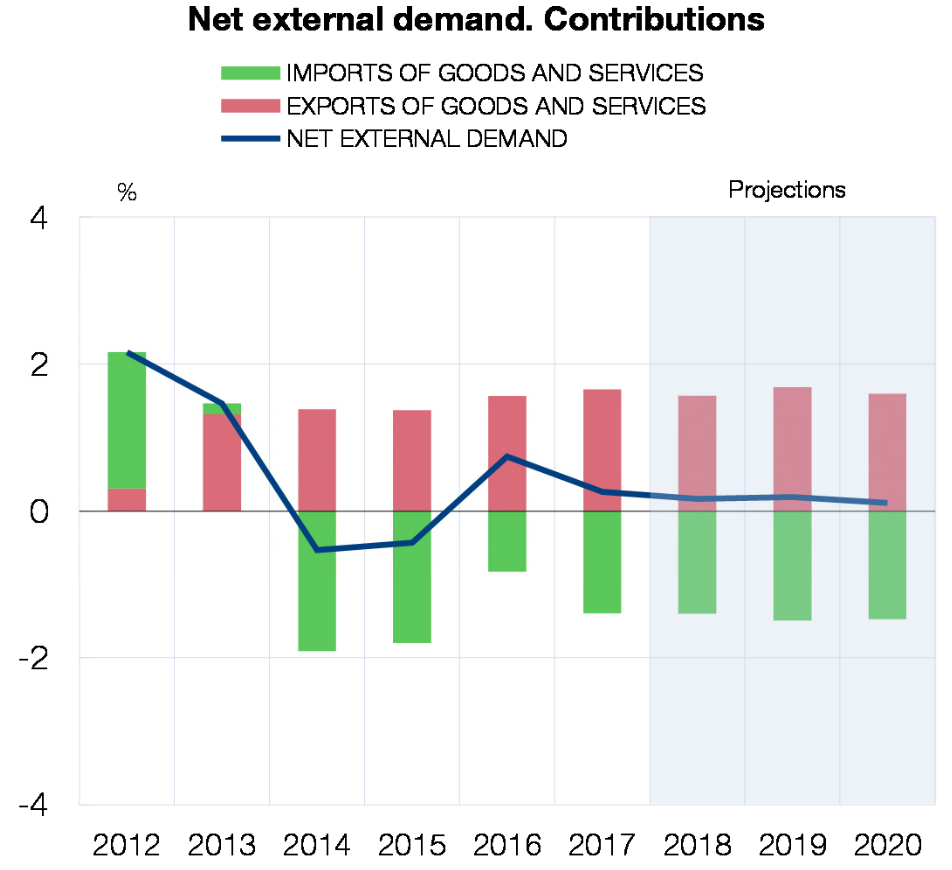
The cut-off date for the technical assumptions, including those for the external setting, is 22 May 2018. Differences from 9 March 2018.

COMPOSITION OF GDP GROWTH



- The expansion of output will continue to be underpinned by national demand; however, a slowdown is projected for this latter variable in the coming years
- The contribution of net external demand will continue to be slightly positive over the course of the projection horizon

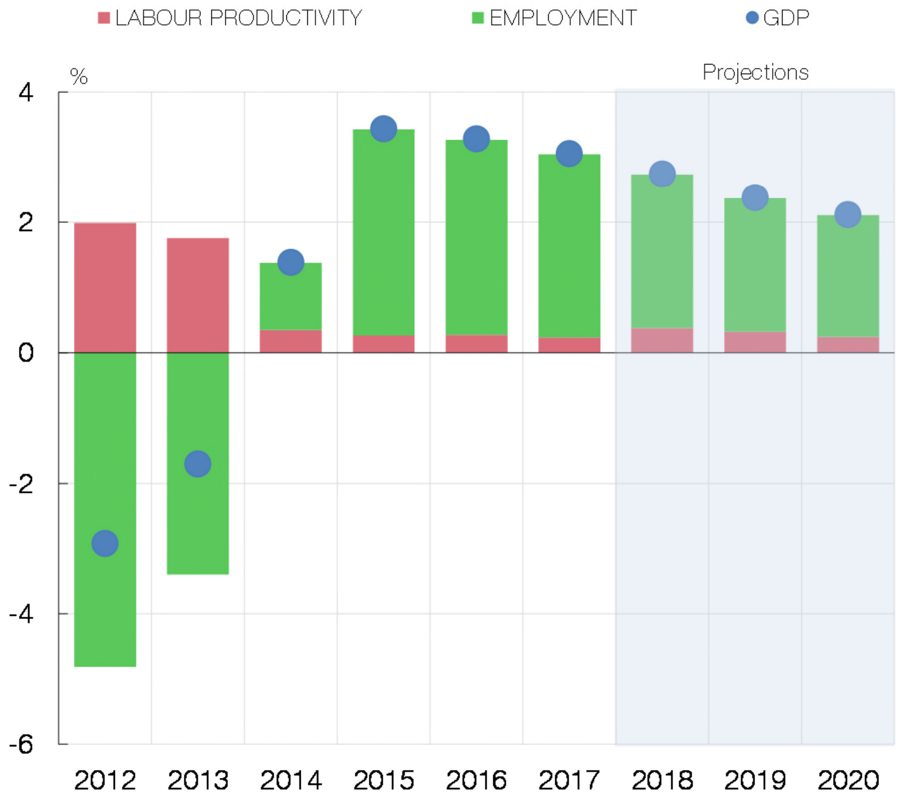




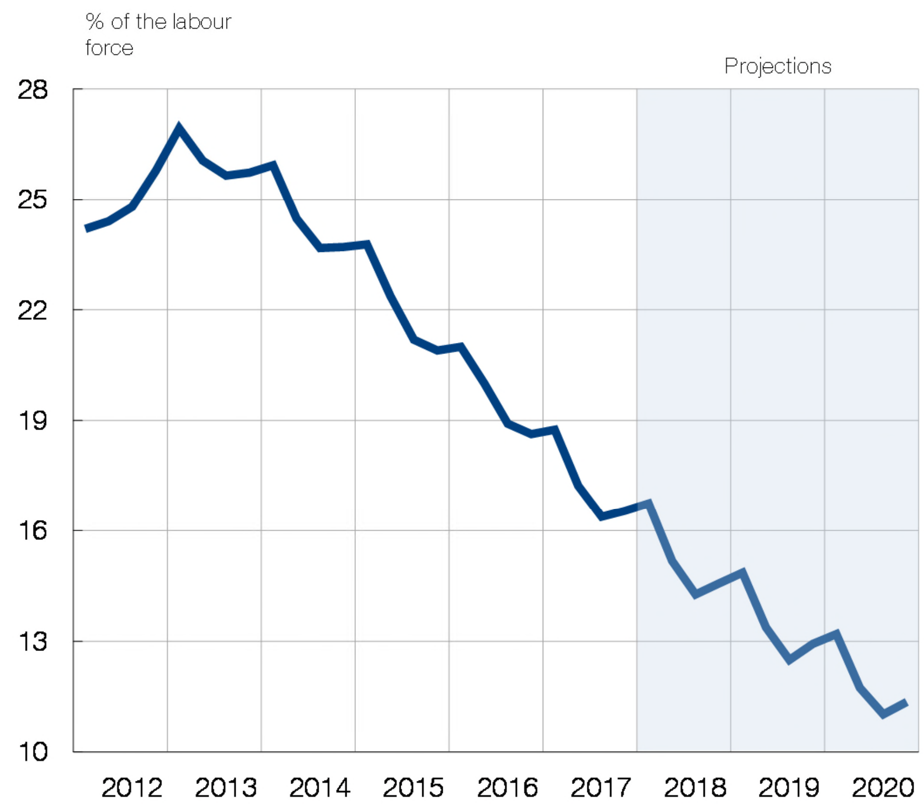
EMPLOYMENT AND UNEMPLOYMENT

- As is usually the case in upturns in the Spanish economy, meagre rates of increase in apparent labour productivity are forecast
- Job creation will provide for further declines in the unemployment rate, placing it above 11% at end-2020, against a background of small reductions in the labour force

GDP growth. Contributions of employment and labour productivity



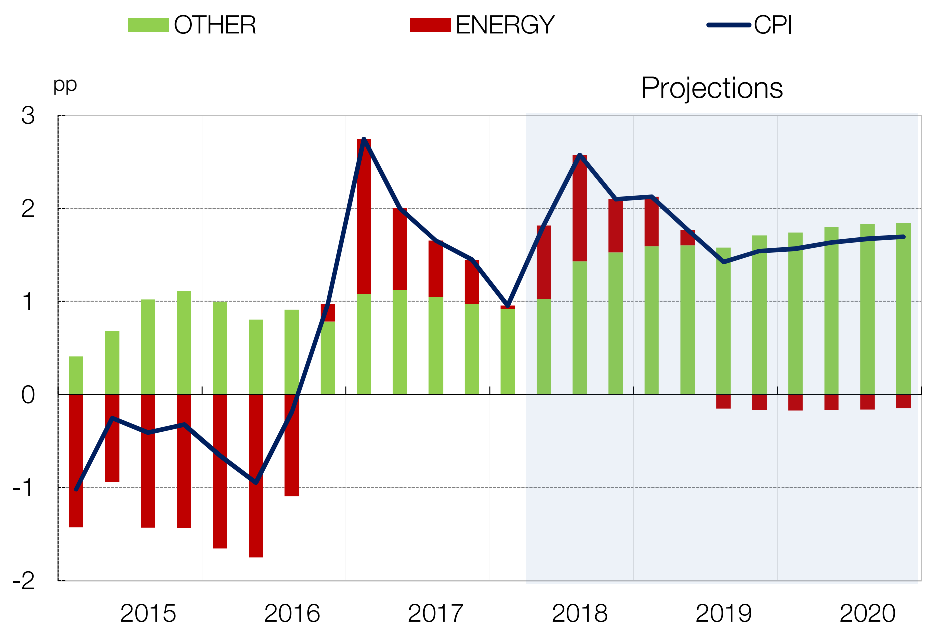
Unemployment rate. Level



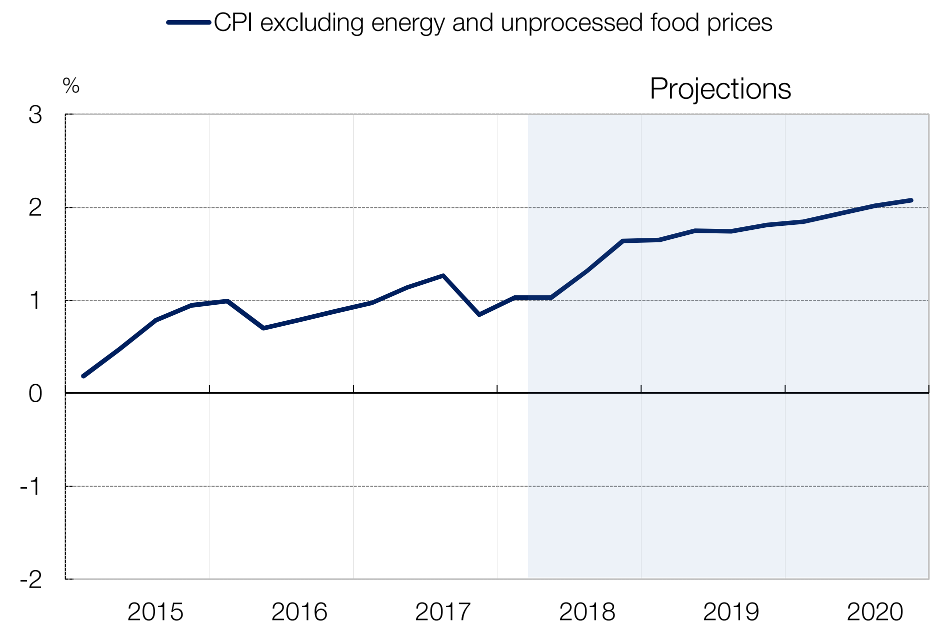
INFLATION PATH

- To September 2018: acceleration in consumer prices, owing mainly to the recent rise in energy prices
- Thereafter:
  - The energy component will begin to lose momentum, owing to base effects and to the declining profile of oil price futures
  - Gradual increase in core inflation, in step with an increasingly positive output gap and with moderate growth in unit labour costs

CONTRIBUTIONS TO OVERALL INFLATION



CORE INFLATION



RISKS

Activity: predominantly downside

- *In the external setting:*
  - *possible episodes of financial tension associated with geopolitical uncertainty, the situation in Italy and ongoing monetary policy normalisation, and risks derived from an escalation of protectionist measures*

- *On the domestic front:*
  - *adverse effects on confidence derived from the political difficulty of putting forward new structural reforms and from the slowdown in the reduction of public indebtedness*
  - *a hypothetical rise in political uncertainty in Catalonia*

Prices: moderately downside

- *owing to a hypothetical materialisation of downside risks to activity*
- *the reduction in the degree of cyclical slackness might give rise to a smaller-than-projected increase in core inflation, against a backdrop of uncertainty over the volume of idle resources and the responsiveness of prices to developments in activity*

PROJECTIONS (2018-2020)

Annual rates of change in volume terms and as a % of GDP		Projection			Difference between current and March 2018 projection		
	2017	2018	2019	2020	2018	2019	2020
GDP	**3.1**	**2.7**	**2.4**	**2.1**	**0.0**	**0.1**	**0.0**
Private consumption	2.4	2.4	1.8	1.6	0.3	0.2	0.0
Government consumption	1.6	1.5	1.3	1.2	0.1	0.1	0.0
Gross fixed capital formation	5.0	4.2	4.2	4.0	0.0	0.1	0.1
Investment in capital goods	6.1	2.5	4.2	3.9	-2.5	0.1	0.2
Investment in construction	4.6	5.7	4.5	4.3	1.7	0.1	0.0
Goods and services exports	5.0	4.6	4.8	4.5	-0.3	0.0	0.0
Goods and services imports	4.7	4.5	4.6	4.4	0.2	0.1	0.1
National demand (contribution to growth)	2.8	2.5	2.2	2.0	0.1	0.1	0.1
Net external demand (contribution to growth)	0.3	0.2	0.2	0.1	-0.2	0.0	-0.1
Nominal GDP	**4.0**	**4.2**	**4.1**	**4.0**	**0.3**	**0.3**	**0.2**
GDP deflator	1.0	1.4	1.7	1.9	0.3	0.2	0.2
Consumer price index (CPI)	2.0	1.9	1.7	1.6	0.6	0.4	0.0
CPI excluding energy and unprocessed food prices	1.1	1.3	1.7	2.0	0.1	0.1	0.0
Employment (equivalent jobs)	2.8	2.4	2.0	1.9	-0.3	0.0	-0.1
Unemployment rate (percentage of the labour force). End-of-period data	16.5	14.6	12.9	11.4	0.3	0.3	0.3
Net lending (+)/ net borrowing (-) of the nation (% of GDP)	2.0	1.6	1.6	1.5	-0.2	-0.2	-0.2
General government net lending (+)/ net borrowing (-) (% of GDP)	-3.1	-2.7	-2.3	-2.0	-0.3	-0.3	-0.3