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## **Briefing note: Macroeconomic projections for the Spanish economy: 2016-2017**

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The Directorate General Economics, Statistics and Research (DGEE) of the Banco de España began disseminating its macroeconomic projections annually in March 2007, and quarterly from October 2014. At present, the vehicle used for the dissemination of these projections is the “Quarterly Report on the Spanish Economy”, in the *Economic Bulletin*. Henceforth, a briefing note describing the key features of the projections will also be released quarterly, and the Director General for Economics, Statistics and Research will hold a half-yearly meeting with the media to present the projections.

The DGEE projections published today as part of the Quarterly Report ([link](#)) are for 2016 and 2017. The most notable aspects are described below.

**1** It is foreseen that **the current expansionary period of the Spanish economy will continue throughout 2016 and 2017**, albeit at a lesser pace than that observed in 2015, underpinned by the persistence of low oil prices, the expansionary stance of monetary policy, the progressive recovery in export markets and the favourable behaviour of the labour market. Specifically, **GDP growth is estimated at 2.7% in 2016**, with a slightly declining profile over the course of the year, **and at 2.3% in 2017**, as some of the factors that have recently boosted the increase in output – such as the successive declines in oil prices since mid-2014, the depreciation of the euro over much of 2015, the easing in financing costs seen in recent years and the more expansionary fiscal policy stance last year – progressively lose momentum.

As to real GDP growth prospects in the short term, a slowdown in economic activity is already expected in the first quarter this year, in line with last December’s projection exercise. Specifically, **GDP is estimated to have grown by 0.7% in the first quarter** (0.8% in the fourth quarter of 2015).

**2 Consumer prices are expected to fall by 0.1% in 2016 on average**, moving on a path that will be heavily influenced by the trajectory of oil prices. Accordingly, in the absence of fresh shocks, they will begin to rise in the second half of this year, posting an average rate of **1.6% in 2017**. The rate of increase of the core inflation indicator (the CPI excluding energy and unprocessed food prices) will rise gradually, but moderately, against a background of expanding activity and the progressive closing of the output gap.

**3 Compared with the preceding projections, published in December last year, expected GDP growth for 2016 has been revised downwards by 0.1 pp, while the revised inflation rate is 0.8 pp lower.** These revisions can essentially be explained **by the changes in the technical assumptions** since the December exercise, which include a slight downward revision in global growth, an appreciation of the effective euro exchange rate and a fall in stock market prices, in line with recent developments on these markets. Conversely, a further decline is projected in oil prices along with a slight reduction in short- and long-term market interest rates, in step with the recent intensification of the expansionary stance of monetary policy.

**4** Throughout the projection period, the expansion in output **will continue to be underpinned by national demand**, as has been the case since the start of the recovery. However, its different components will moderate to some extent. In particular, **household consumption** is expected to hold at a high rate, supported by foreseeably favourable employment developments and, in the short run, by certain temporary factors, such as the recent declines in oil prices. The loss of intensity of certain temporary factors would prompt a slowdown in this component over the course of the projection period. The slowdown projected for **business investment** is due to the temporary weakening of external markets and the strengthening of the euro. Finally, the growth of **general government demand** will ease, in accordance with the budgetary plans and in contrast to the high increase in this variable in 2015.

**5** As regards the external sector, **exports** are expected to lose some momentum in the short term, in line with developments in external markets. This pattern would be reversed in the final stretch of 2016 and over the course of 2017, as the performance of these markets gradually becomes somewhat more expansionary. Over the two-year period as a whole, exports from the Spanish economy will continue to grow more than markets themselves, as a reflection of the accumulation of further gains in competitiveness. The performance of **imports**, meantime, will be determined by final demand, in a setting in which there are no discernible firm signs yet that the gains in competitiveness built up have led to a substitution of domestically produced goods for foreign-made ones.

**6** In the labour market, **employment** will continue to be created at a high rate relative to output growth, in a setting in which labour costs are estimated to increase moderately. Given that the increase in the labour force is expected to be very modest, employment creation would lead to further reductions in the **unemployment rate**, which would stand at slightly over 18% of the labour force at end-2017.

**7** The projections presented depict a **favourable baseline scenario for activity** in the Spanish economy. **Nonetheless, the balance of risks surrounding this scenario has worsened considerably in recent months. On the external front**, the recent tensions on international financial markets have highlighted the weaknesses to which global growth is exposed and, in particular, the fragility of certain emerging markets. Also, the heightening of geopolitical tensions in different areas poses an additional source of risk to the world economy. **From the domestic standpoint**, doubts about the future course of economic policies might have a negative bearing on private agents' spending decisions, especially if the current situation of political uncertainty were to extend over time. Reducing the influence of these risks requires giving priority both to seeing through the process of fiscal

consolidation, which is essential for maintaining confidence, and to persevering with the implementation of structural reforms that reduce the vulnerabilities of the Spanish economy and enable its future growth capacity to be improved.

**8 The risks affecting the baseline scenario for inflation are also tilted moderately to the downside,** as a result of the disinflationary pressures from abroad in the event of a more unfavourable global growth scenario materialising. In the opposite direction, it cannot be ruled out that these projections may underestimate the positive impact of the monetary policy measures recently adopted by the ECB on euro area inflation.