

# **MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY**

## **2019-2021**

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# OVERVIEW

- **Activity:**

- *The expansionary phase is projected to continue, but at a progressively lower pace.*
- *The December projections are maintained:*
  - (+) recent course of domestic activity more favourable than earlier projected (*which points to growth of 0.6% in Q1*) .
  - (-) *but global trade and activity have turned down, especially in the euro area.*

- **Prices:**

- *Inflation will ease in 2019 (energy and core).*
- *Subsequently, a gradual rise in core inflation is projected, in line with the growing use of the productive factors.*

Annual rate of change (%)	March 2019 projections			
	2018	2019	2020	2021
<b>GDP (real)</b>	2.5	2.2	1.9	1.7
<b>Employment</b>	2.5	1.6	1.6	1.6
<b>HICP (inflation)</b>	1.7	1.2	1.5	1.6

Projections cut-off date: 13 March 2019.

# CHANGES IN THE ASSUMPTIONS



- Main changes: downward revision of oil prices, of the growth of external markets and of interest rates.

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS	Current projection				Difference between the current projections and those made in December 2018		
	2018	2019	2020	2021	2019	2020	2021
International environment							
World output	3.5	3.3	3.4	3.3	-0.1	0.0	0.0
Spain's export markets	3.1	2.7	3.6	3.3	-0.6	-0.2	-0.1
Oil price in dollars/barrel (level)	71.1	64.9	64.4	62.8	-2.7	-2.4	-3.1
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.18	1.14	1.14	1.14	0.00	0.00	0.00
Spain's nominal effective exchange rate vis-à-vis the world including the euro area (2000 = 100 and percentage difference)	117.9	117.4	117.4	117.4	-0.5	-0.5	-0.5
Short-term interest rate (3-month EURIBOR)	-0.3	-0.3	-0.2	0.0	0.0	-0.2	-0.3
Long-term interest rate (10-year bond yield)	1.4	1.3	1.5	1.8	-0.6	-0.6	-0.6

The external assumptions cut-off date is 7 March 2019. Differences from 21 November 2018.

## REVISIONS RELATIVE TO DECEMBER

### ➤ Activity:

- *No revisions to projected GDP growth:*
  - *The positive surprises in domestic activity in late 2018 and early 2019 make up for the signs of worsening from external markets.*
  - *The effect of the assumptions is offset in 2020-2021.*

### ➤ Prices:

- *Downward revision owing to recent negative surprises in the core component.*

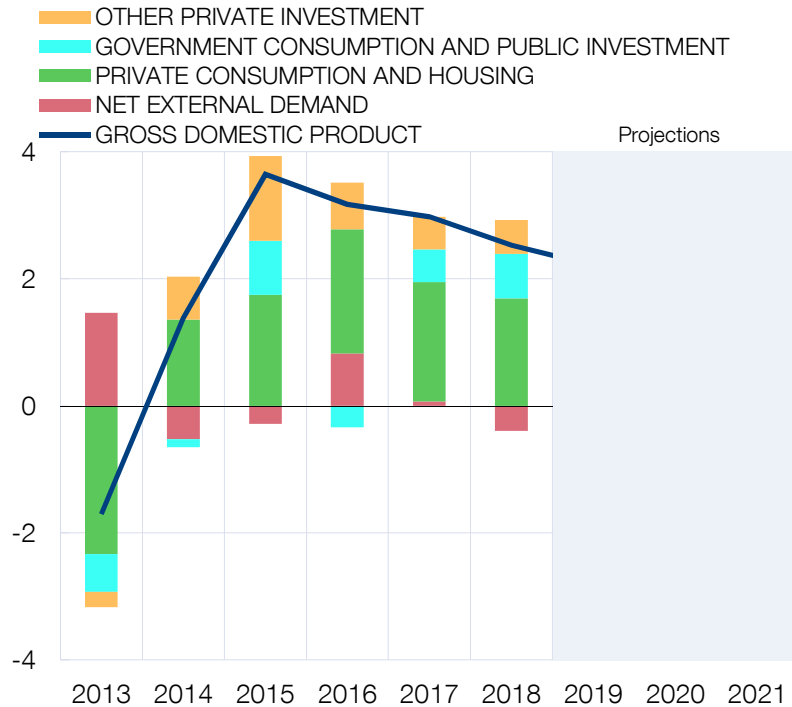
Annual rate of change (%)	March 2019 projections				Revisions in relation to the December 2018 projections (pp)		
	2018	2019	2020	2021	2019	2020	2021
<b>GDP (real)</b>	2.5	2.2	1.9	1.7	0.0	0.0	0.0
<b>HICP (inflation)</b>	1.7	1.2	1.5	1.6	-0.4	-0.1	-0.1
<b>Core HICP</b>	1.0	1.1	1.5	1.7	-0.4	-0.2	-0.1

# COMPOSITION OF OUTPUT GROWTH

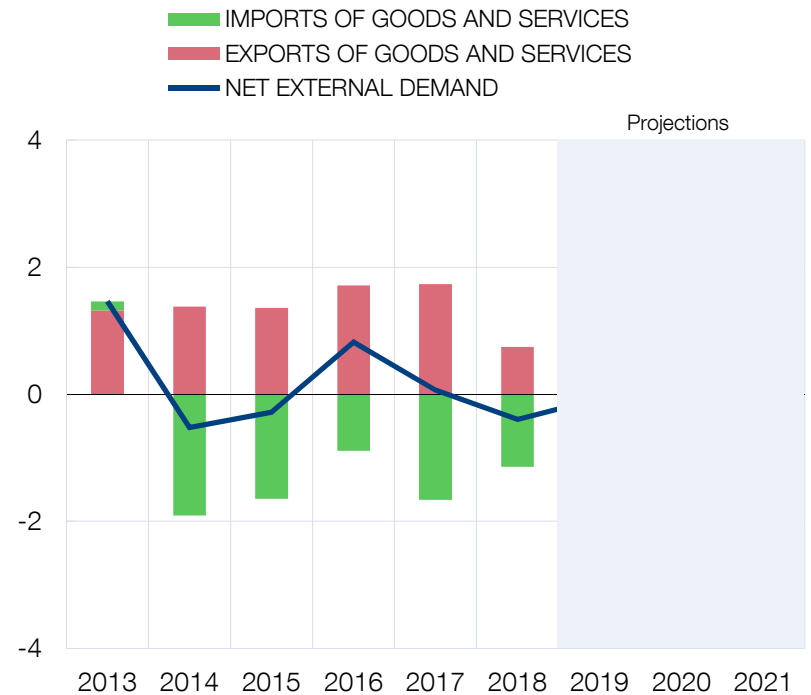


- The expansion in output will continue to be underpinned by national demand, in all of whose components a slowdown is projected.
- Net external demand will make a slightly negative contribution in the overall projection period.

**GDP GROWTH (%) AND CONTRIBUTIONS (pp)**



**NET EXTERNAL DEMAND AND CONTRIBUTIONS (pp)**

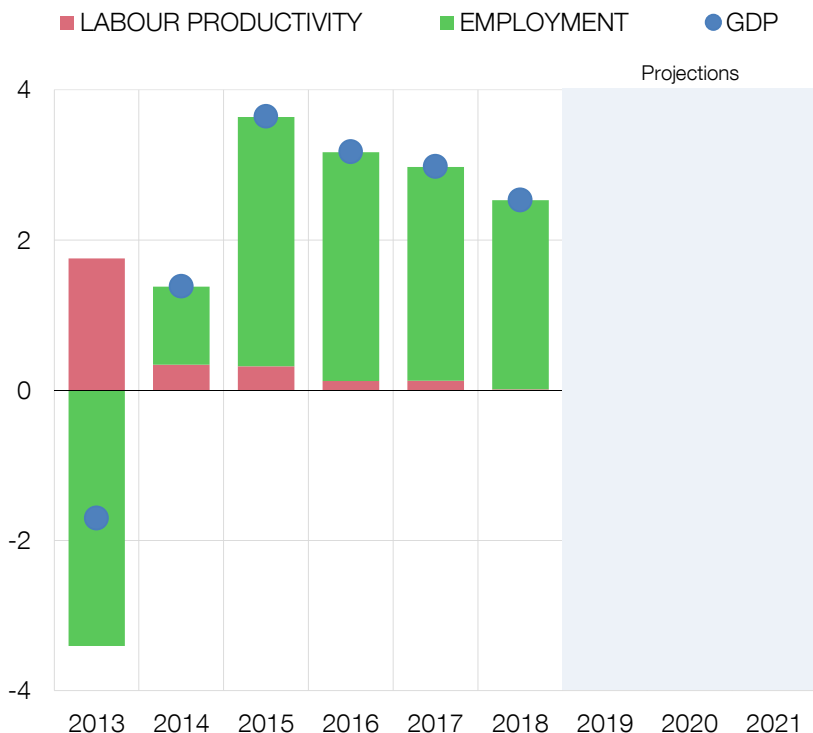


# EMPLOYMENT AND UNEMPLOYMENT

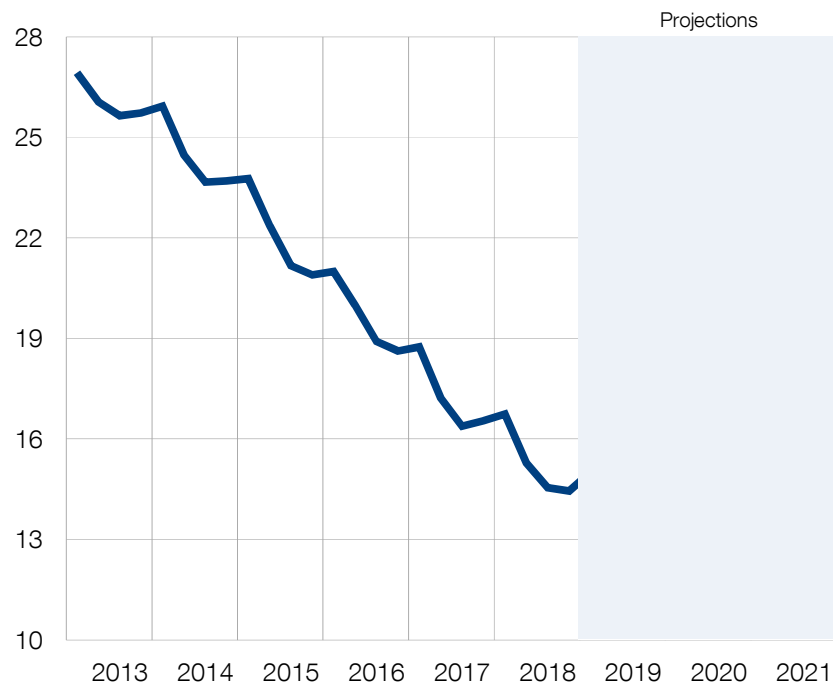


- Scant apparent labour productivity gains are projected, as is habitual during expansions.
- Job creation will be conducive to further declines in the unemployment rate, against a background of small increases in the labour force.

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



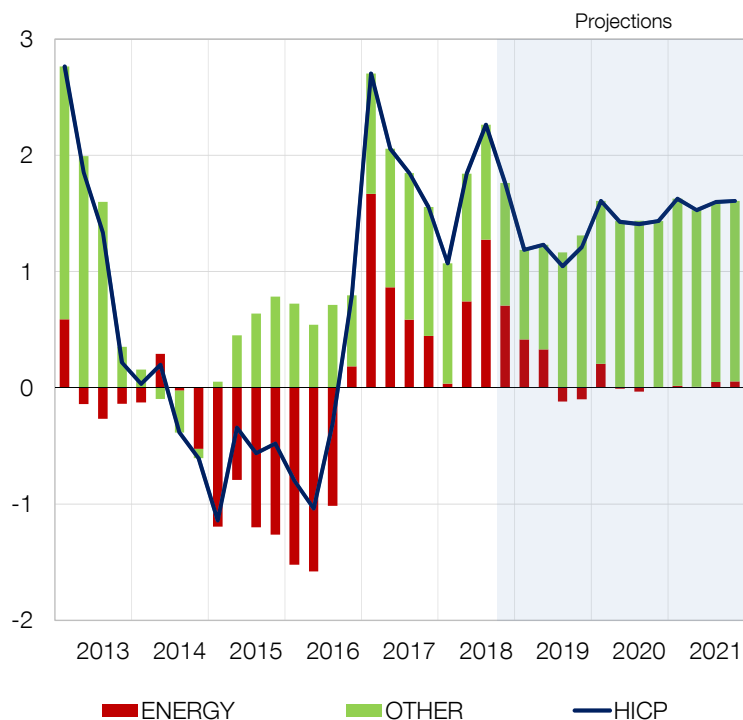
**UNEMPLOYMENT RATE**  
(% of the labour force)



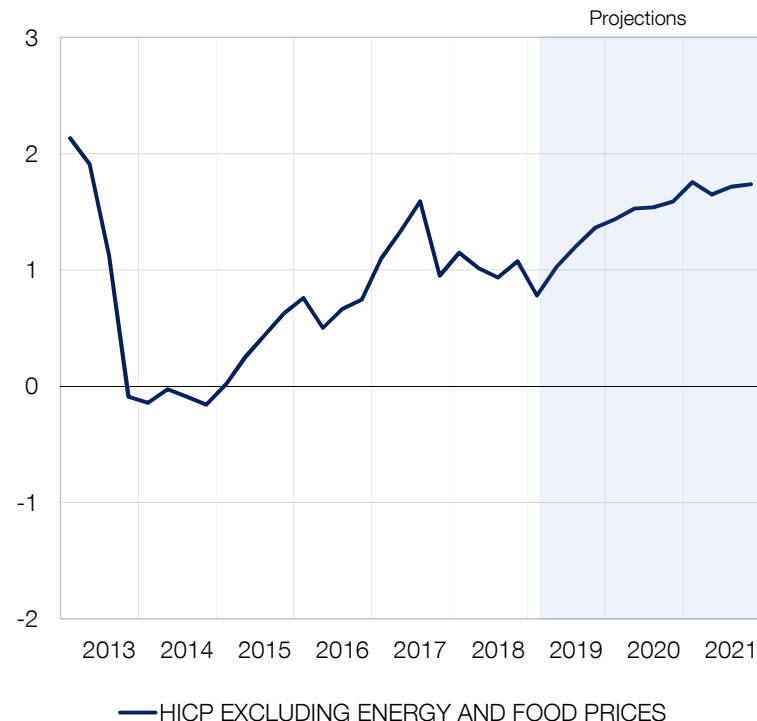
# INFLATION PATH

- Overall inflation will ease in the coming quarters, and will rise from end-2019 to 1.6% at the end of the projection horizon.
- In the coming quarters the energy component will continue to lose momentum, owing to the slightly declining path of oil futures and to base effects.
- A rise in core inflation is projected, in step with the widening of the positive output gap and with the expansion of unit labour costs.

OVERALL INFLATION (%) AND CONTRIBUTIONS (pp)



CORE INFLATION (%)

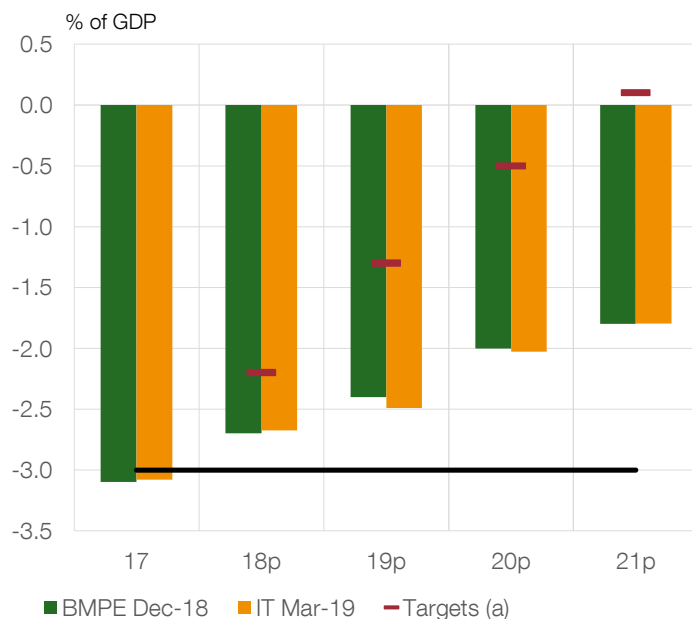


# BUDGET DEFICIT AND PUBLIC DEBT

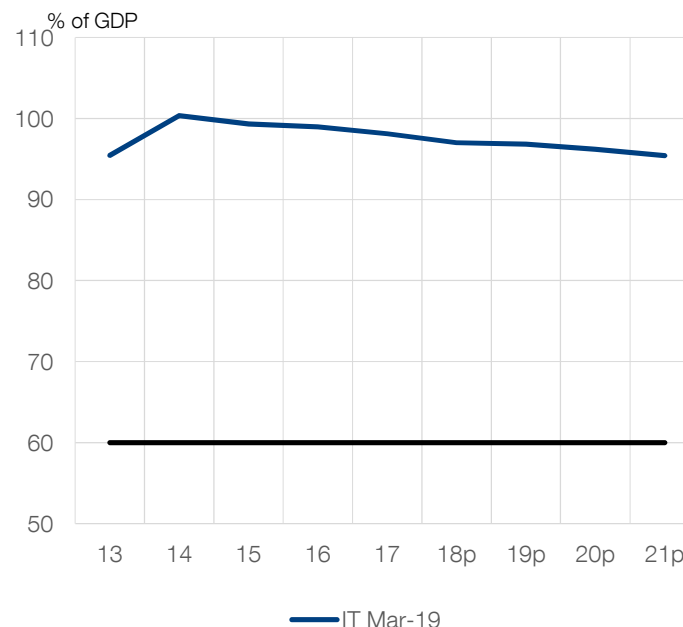


- Relative to the December projections, the projected deficit for 2019 is up 0.1 pp of GDP to 2.5%, and holds at 2.0% and 1.8% in 2020 and 2021, respectively.
- The fiscal policy stance is projected to be expansionary in 2019.
- Nominal output growth makes for a slightly declining path of the public debt ratio, but its level in 2021 will still be very high.

### GENERAL GOVERNMENT BUDGET BALANCE



### GENERAL GOVERNMENT DEBT



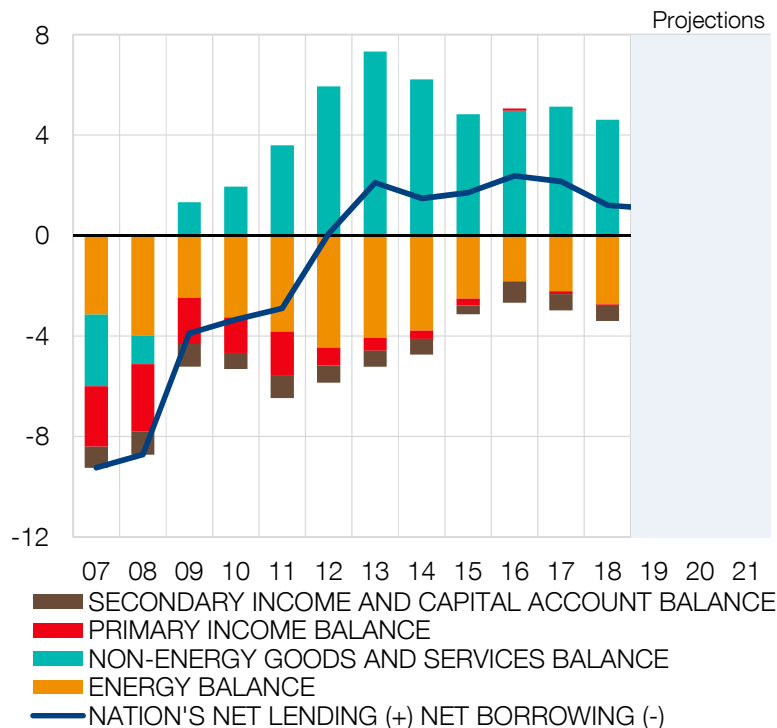


# THE ECONOMY'S NET LENDING CAPACITY

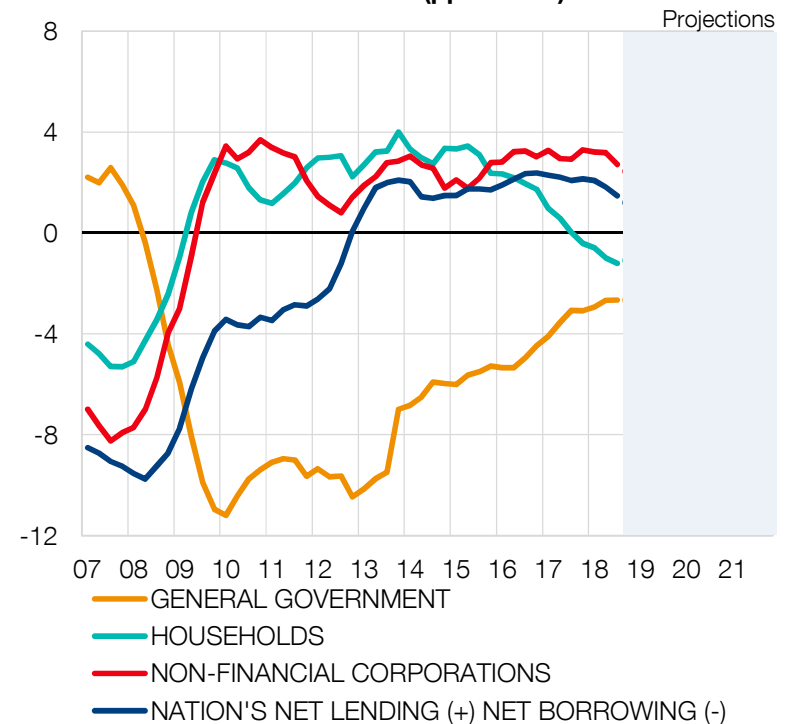


- Net lending capacity vis-à-vis the rest of the world is projected to fall below 1% of GDP, owing to some worsening in the non-energy goods and services surplus.
- Sector by sector, the projections are for: a prolongation of households' net borrowing, set against their notably buoyant investment, and a slight rise in their saving; a notable decline in NFCs' net lending; and, for general government, a gradual reduction in net borrowing.

**NATION'S NET LENDING (+) NET BORROWING (-) (% GDP)**  
Contributions (pp of GDP)



**NATION'S NET LENDING (+) NET BORROWING (-) (% GDP)**  
Contributions (pp of GDP)





## Activity: Predominantly on the downside

- *Externally:*
  - *uncertainty over the outcome of Brexit,*
  - *possible greater persistence than anticipated of easing in euro area growth,*
  - *potential escalation in trade protectionism, with the ensuing effects on global trade and activity.*
- *Domestically:*
  - *uncertainty over the future course of economic policies,*
  - *household consumption - the main factor of growth - rests partly on a low saving rate, with high consumer credit growth,*
  - *adverse effects of those wage rises not linked to productivity on employment growth and competitiveness.*

## Prices:

- *hypothetical materialisation of downside risks to activity.*
- *still some volatility in energy prices.*

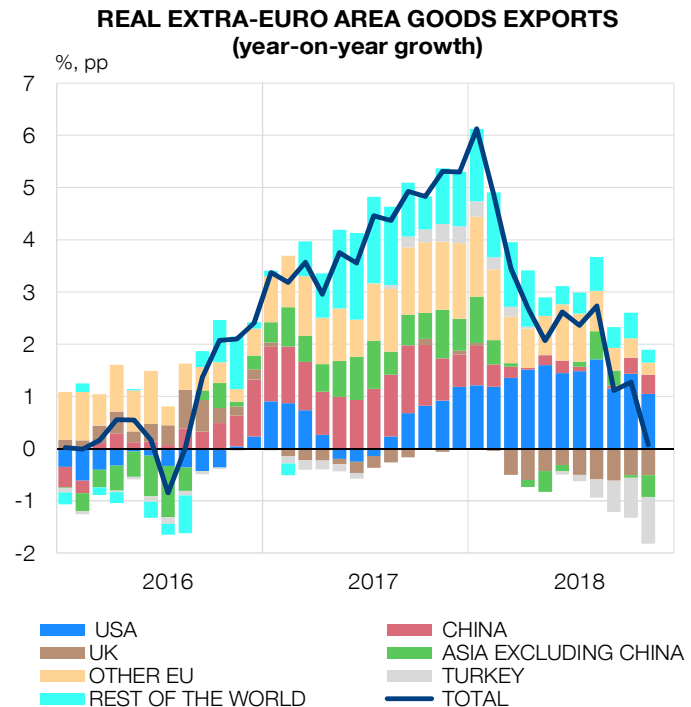
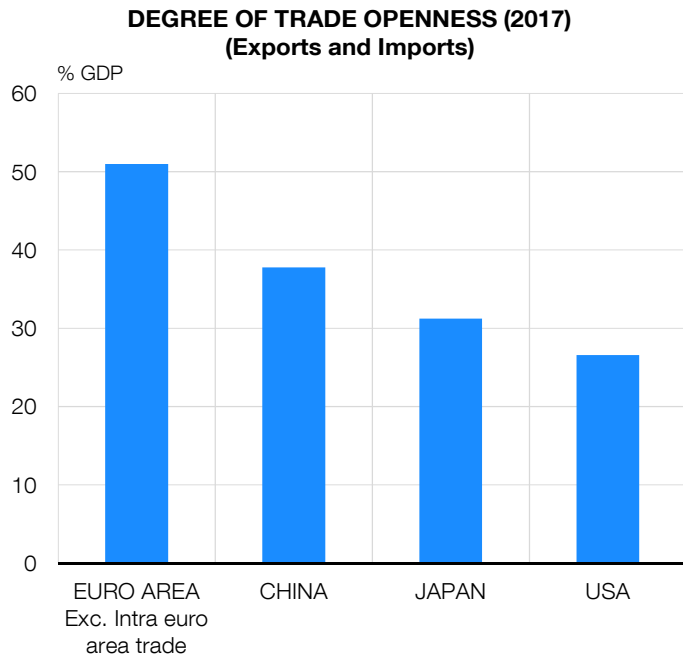
# PROJECTIONS (2019-2021)

Annual rates of change in volume and% of GDP	2018	March 2019 projections			Difference between the current projections and those made in December 2018		
		2019	2020	2021	2019	2020	2021
GDP	2.5	2.2	1.9	1.7	0.0	0.0	0.0
Private consumption	2.4	2.0	1.7	1.4	0.1	0.2	0.1
Government consumption	2.3	1.8	1.3	1.2	0.2	0.1	0.0
Gross fixed capital formation	5.2	3.9	3.8	2.7	-0.8	0.3	-0.1
Investment in capital goods	4.9	3.2	3.3	2.1	-1.8	-0.2	-0.6
Investment in construction	5.5	4.6	4.3	3.2	0.1	0.7	0.4
Exports of goods and services	2.2	3.3	4.0	3.8	-0.1	0.0	0.0
Imports of goods and services	3.6	3.6	4.6	3.9	-0.4	0.5	0.2
National demand (contributions to growth)	2.9	2.3	2.0	1.7	-0.1	0.1	0.1
Net external demand (contribution to growth)	-0.4	-0.1	-0.1	0.0	0.1	-0.2	-0.1
Nominal GDP	3.5	3.6	3.5	3.5	-0.3	-0.2	-0.1
GDP deflator	0.9	1.4	1.6	1.8	-0.4	-0.1	-0.1
Harmonised index of consumer prices (HICP)	1.7	1.2	1.5	1.6	-0.4	-0.1	-0.1
HICP excluding energy and food	1.0	1.1	1.5	1.7	-0.4	-0.2	-0.1
Employment (full-time equivalents)	2.5	1.6	1.6	1.6	0.1	0.0	0.0
Unemployment rate (% of labour force). Average data	15.3	14.2	13.2	12.3	-0.1	-0.1	-0.1
Unemployment rate (% of labour force). End of period	14.4	14.0	12.8	12.1	-0.1	-0.1	-0.1
Nation's net lending (+) / net borrowing (-) (% of GDP)	1.2	1.1	0.8	0.7	0.3	0.1	0.1
General government's net lending (+) / net borrowing (-) (% of GDP)	-2.7	-2.5	-2.0	-1.8	-0.1	0.0	0.0

# IMPACT OF SLOWDOWN IN GLOBAL TRADE ON EURO AREA EXPORTS



- The euro area's high degree of openness and its geographical and product specialisation make it particularly vulnerable to external shocks and to the slowdown in world trade.
- The less buoyant behaviour of the economies most important for the euro area's external trade entails a sharp slowdown in its export markets.
- By area, the contraction in sales to the United Kingdom and Turkey and the slowdown in exports to the rest of the EU and Asia are notable.



Sources: World Bank, CPB, Eurostat and World Trade Organization. Latest observation: real goods exports (November 2018).

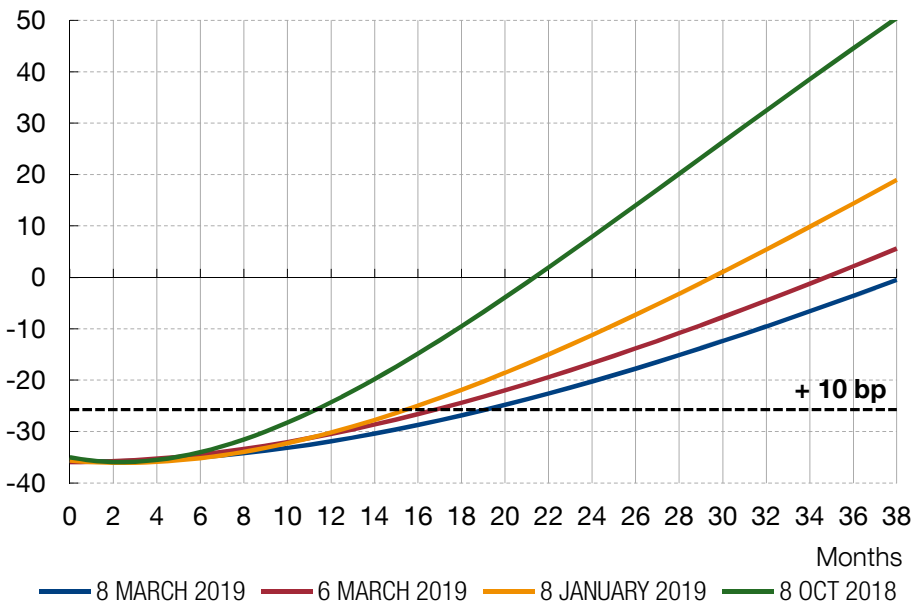
(a) Exports plus imports of goods and services as a percentage of GDP.

# MARKET EXPECTATIONS ABOUT THE EURO AREA BENCHMARK INTEREST RATE

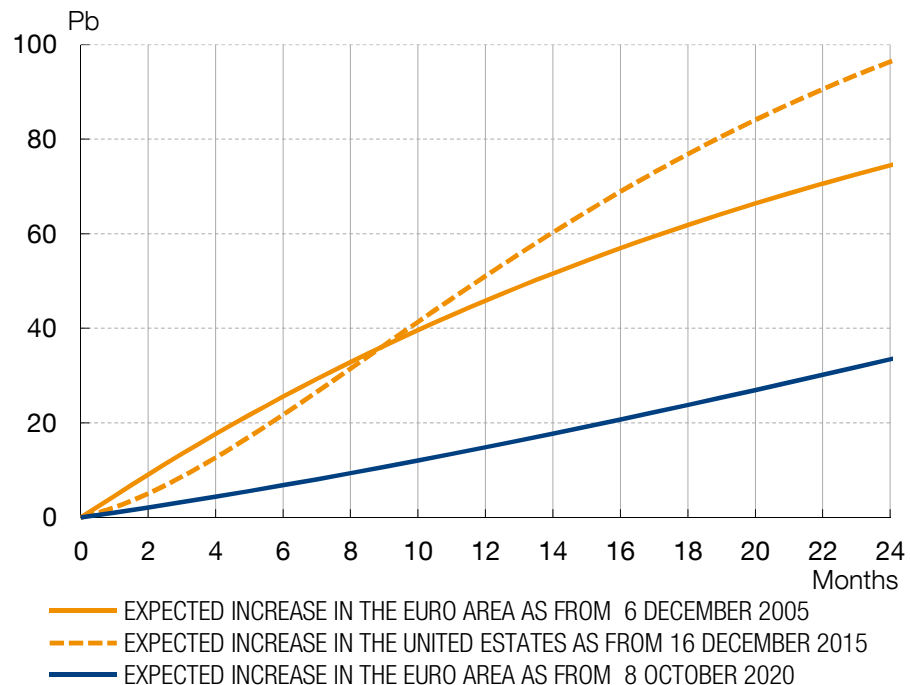


- The markets have revised downwards their expectations about the future course of interest rates. The first rise (+10 bp) is expected for October 2020 (in 19 months) and positive rates as from May 2022 (in 38 months).
- These changes are the outcome of the worsening euro area growth outlook and of the measures adopted at the last ECB Governing Council meeting on 7 March.
- The pace of expected rises in interest rates is slower than that anticipated by the markets in past cycles in the euro area and the United States.

LEVEL OF EXPECTED RATES IN THE EURO AREA WITHIN N MONTHS



EXPECTED INCREASE IN RATES IN N MONTHS AS FROM THE FIRST RISE



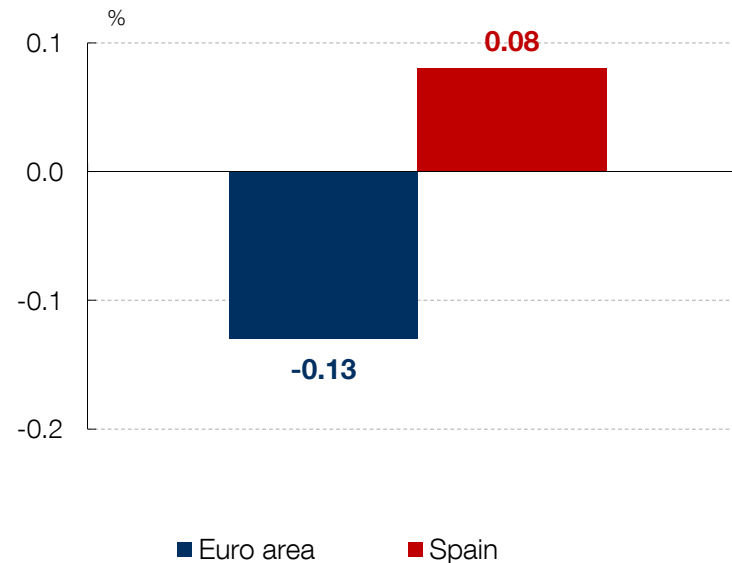
Sources: ECB, Federal Reserve and Datastream.

# A COMPARISON OF THE RECENT ECONOMIC SITUATION IN SPAIN AND IN THE EURO AREA



- The latest conjunctural data indicate that the Spanish economy is withstanding the global slowdown better than the euro area as a whole.
- The latest figures are not, overall, negative for the Spanish economy. But the global slowdown may ultimately feed through to Spain to a greater extent than to date.

FORECAST FOR THE QUARTER-ON-QUARTER GDP RATE IN 2019 Q1. CHANGE FROM 1 JANUARY TO 13 MARCH 2019

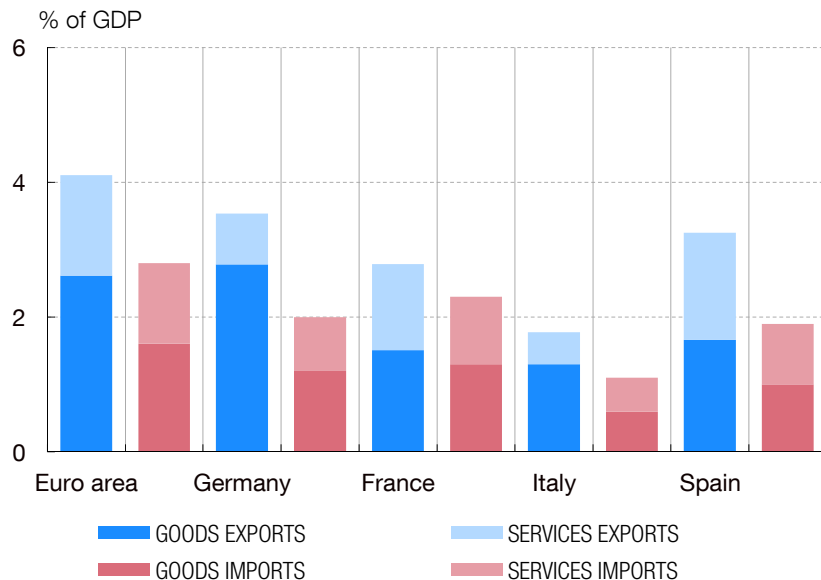


# BREXIT: EXPOSURE OF THE SPANISH ECONOMY

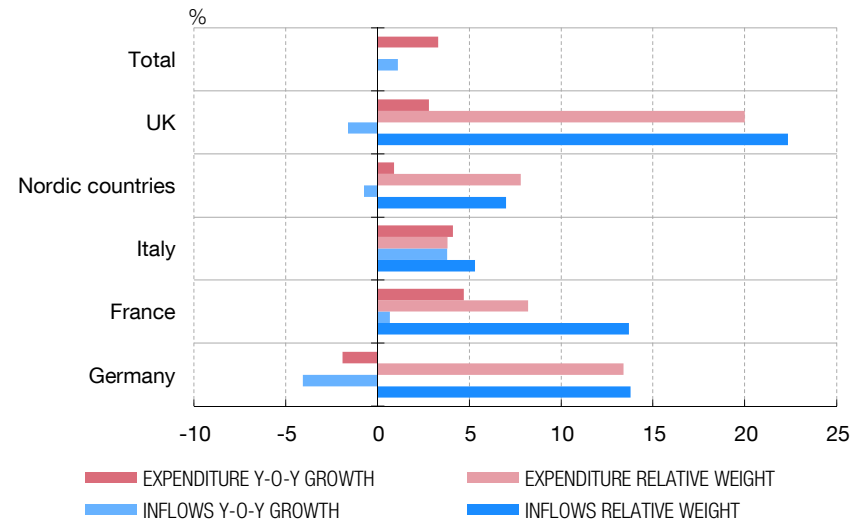


- The Spanish economy's exposure to the United Kingdom is significant, especially in services (1.6% of GDP).
- Tourism from the United Kingdom accounts for around 20% of both tourist inflows and total expenditure.

**GOODS AND SERVICES EXPORTS (2017)**



**FOREIGN TOURIST INFLOWS AND TOTAL EXPENDITURE IN SPAIN BY NATIONALITY (2018)**



# BREXIT: IMPACT ON GDP



- The estimated costs to the Spanish economy of any future UK withdrawal from the EU could be significant, depending on the scenario, but probably not disproportionate.
- The scale of the impact depends on how the future relationship between the UK and the EU is structured.

**BREAKDOWN OF THE CUMULATIVE EFFECT ON GDP AFTER 5 YEARS**

