

24.09.2019

## Briefing note

### Macroeconomic projections for the Spanish economy (2019-2021)

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This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2019-2021, which the Banco de España has published today on its website (available at this [link](#)). These projections incorporate the changes observed in the technical assumptions, and also the new information that has become available -in particular, the latest annual National Accounts data- since the last projections were published in [June](#). The National Accounts data reflect the revision of the time series for the period 1995-2018, which means that it is particularly hard to make comparisons with the June projections.

The present projections point to **continuation of the expansionary phase** over the period 2019-2021 (see Table 2). Growth will continue to be underpinned by the accommodative stance of monetary policy (which has been reinforced by the measures adopted by the Governing Council of the European Central Bank (ECB) at its last meeting), the favourable aggregate financial position of firms and households and the assumption that, following their recent weakness, export markets will tend to recover gradually over the projection horizon. Growth will continue to be based on domestic demand, although its positive contribution will be lower than in the recent past.

Activity's momentum is projected to moderate over the projection horizon. In terms of average annual rates, after growing by 2.4% in 2018, **GDP growth** is projected to stand at 2% in 2019, 1.7% in 2020 and 1.6% in 2021. In comparison with the [June projections](#), GDP growth has been revised downwards by 0.4 percentage points (pp) in 2019, 0.2 pp in 2020 and 0.1 pp in 2021. This revision is partly a result of weaker domestic demand revealed by the latest data, which would indicate that the deterioration in the external environment and the uncertainties originating in the rest of the world (and possibly domestically too), are exerting a stronger moderating effect on the spending of businesses and households than was anticipated three months ago. This background of greater uncertainty is expected to continue to weigh on agents' spending decisions, particularly in the short term, with the result that activity growth rates are projected to be more moderate than in recent years.

As regards the **labour market, the growth rate of employment is projected to moderate gradually**, in line with the projected slowdown in activity. Despite the increase in the labour force, job creation will reduce the rate of unemployment to 12.8% by the end of 2021.

The gradual widening of the output gap and the higher wage increases projected, along with the expansionary monetary policy stance, will translate into higher upward pressures on prices. In contrast, the projection exercise assumptions involve a decrease over the next few years in the inflationary pressures originating from abroad, reflecting the downward path of oil prices. The net result of all these effects is that annual average **HICP inflation will gradually rise** from 0.8% in 2019 to 1.5% in 2020. The rate of underlying inflation, meanwhile, as measured by the rate of change of the HICP excluding energy and food, will also gradually rise, from 1.1% in 2019 to 1.6% in 2021.

The **risks around the central GDP growth scenario** are clearly tilted to the downside, with those originating externally standing out, even after some materialisation of some of the risks that were identified before the summer. Especially notable are the possibility that the recent weakness of global activity will be more persistent than assumed, that new protectionist measures will be adopted at global level and the uncertainty still surrounding the departure of the United Kingdom from the European Union. Domestically, a high degree of uncertainty persists regarding the future direction of economic policies and, in particular, regarding the necessary process of fiscal consolidation, in a context in which Spanish public finances still remain vulnerable to adverse shocks.

The risks that inflation will deviate from the central scenario are also tilted to the downside, as a consequence of a hypothetical materialisation of the risks to activity described above. However, a rise in oil prices resulting from a hypothetical heightening of geopolitical tensions, or an increase in tariffs associated with further episodes of trade tension would have inflationary effects.