

MACROECONOMIC PROJECTIONS FOR SPAIN

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DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH



CONTENTS

1. Macroeconomic projections for the Spanish economy: 2019-2021
2. Determinants of recent oil market developments
3. Euro area: prices, labour costs and mark-ups

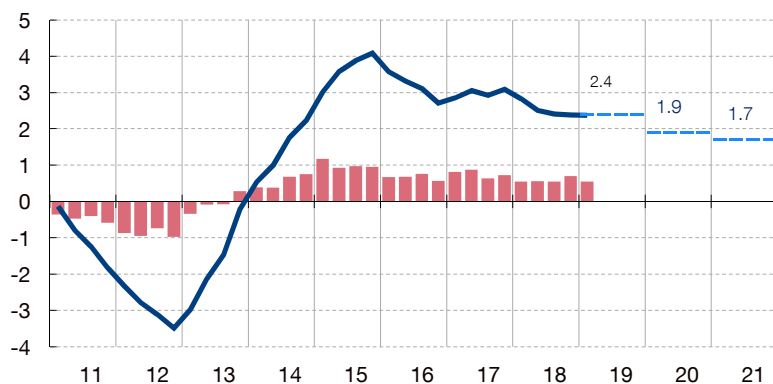
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OVERVIEW: ACTIVITY

- **Prolongation of the current upturn, albeit at a progressively moderating growth rate**
- **Upward revision of envisaged 2019 GDP growth**
 - Concentrated in the first half of the year, where activity was stronger than expected in March
- **For 2020-21 the path of GDP growth remains unchanged**

GDP CHANGE (%)



	2019	2020	2021
GDP growth (%)	2.4	1.9	1.7
Changes from March (pp)	0.2	0.0	0.0

Projections cut-off date: 22 May.

OVERVIEW: PRICES

- **Overall inflation** will tend to moderate towards the end of the year and will then rise to 1.6% in the final stretch of the projection horizon.
- In the **short term**, the **energy component** will continue to weaken due to the recent deceleration in electricity and gas prices and to base effects.
- A **rise in core inflation** is projected, in line with the wider positive output gap and the higher unit labour costs.

INFLATION (%)



— OVERALL HICP, ACTUAL
 - BANCO DE ESPAÑA FORECAST JUNE 2019
 — HICP EXCL. ENERGY AND FOOD
 - BANCO DE ESPAÑA FORECAST JUNE 2019

Projections cut-off date: 22 May.

INFLATION	Changes from March (pp)		
	2019	2020	2021
Harmonised index of consumer prices (HICP)	-0.1	-0.2	-0.1
HICP excluding energy and food	0.1	0.0	0.0

CHANGES IN ASSUMPTIONS WITH RESPECT TO MARCH

- Worse outlook for **external markets**
- Lower **interest rates**
- Higher recent volatility in **oil prices**

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

	2018	Current projections			Changes from March 2019 projections		
		2019	2020	2021	2019	2020	2021
international environment							
World output	3.6	3.1	3.4	3.3	-0.2	0.0	0.0
Spain's export markets	3.0	2.6	2.9	3.2	-0.1	-0.6	-0.2
Oil price in US dollars (level)	71.1	68.1	65.8	62.7	3.3	1.4	-0.1
Monetary and financial conditions							
US dollar/euro exchange rate (level)	1.18	1.12	1.12	1.12	-0.01	-0.02	-0.02
Nominal effective exchange rate against the non-euro area (2000 = 100 and percentage differences)	117.9	117.7	117.7	117.7	0.2	0.3	0.3
Short-term interest rate (3-month EURIBOR)	-0.3	-0.3	-0.3	-0.2	0.0	-0.1	-0.2
Long-term interest rate (10-year bond yield)	1.4	1.1	1.3	1.6	-0.1	-0.2	-0.2

External assumptions cut-off date: 15 May.

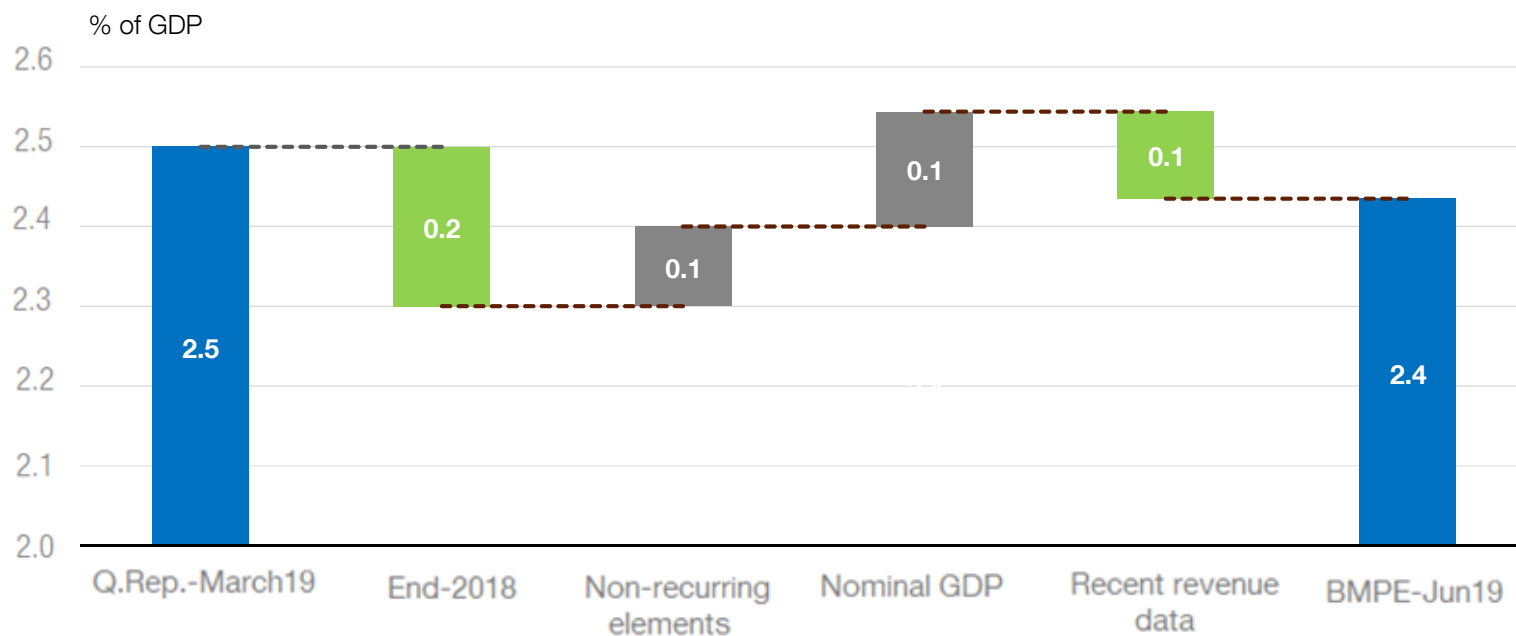
PROJECTED GENERAL GOVERNMENT BALANCE IN 2019

- **The baseline scenario for 2019 includes:**

- **End-2018:** deficit is 0.2 pp of GDP better than the March projection.
- **New non-recurring elements in 2019:** these raise the deficit by 0.1 pp of GDP.
- **Denominator effect:** lower growth of nominal GDP raises the deficit by 0.1 pp of GDP.
- **Recent data:** higher revenue growth in the opening months of 2019.

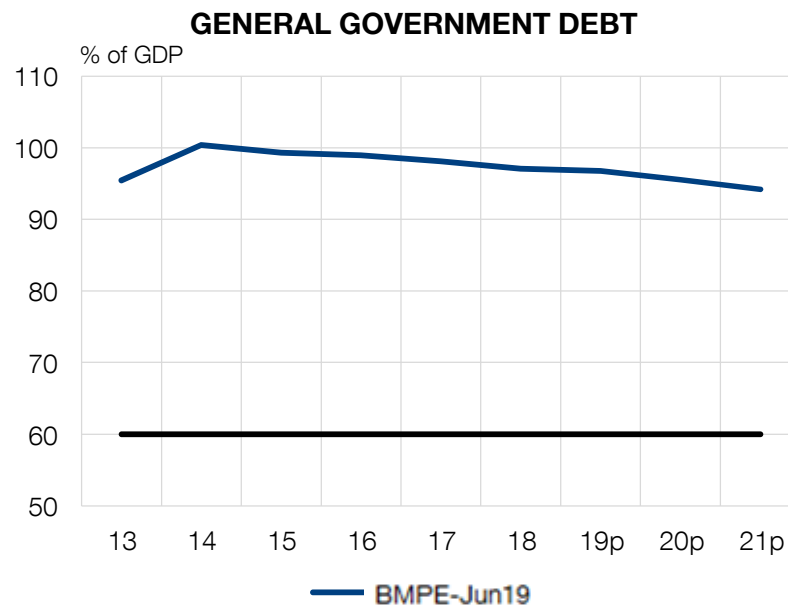
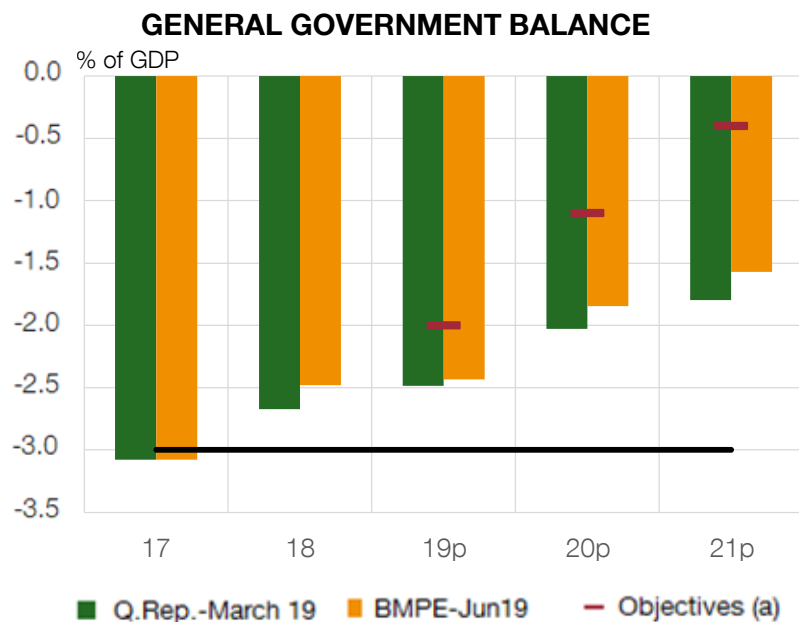
- **The fiscal policy stance will be expansionary in 2019**

CHANGE IN THE 2019 BUDGET DEFICIT FORECAST



THE BUDGET DEFICIT AND PUBLIC DEBT

- Compared with the March projections, the **budget deficit for 2019 is lowered** by 0.1 pp, to **2.4%**. Those for **2020** and **2021** decrease by 0.2 pp to **1.8% and 1.6%**, respectively.
- Spain leaves the corrective arm of the SGP in 2019.**
- However, the expected nominal GDP growth will allow a slight, **very gradual reduction in the public debt ratio.**



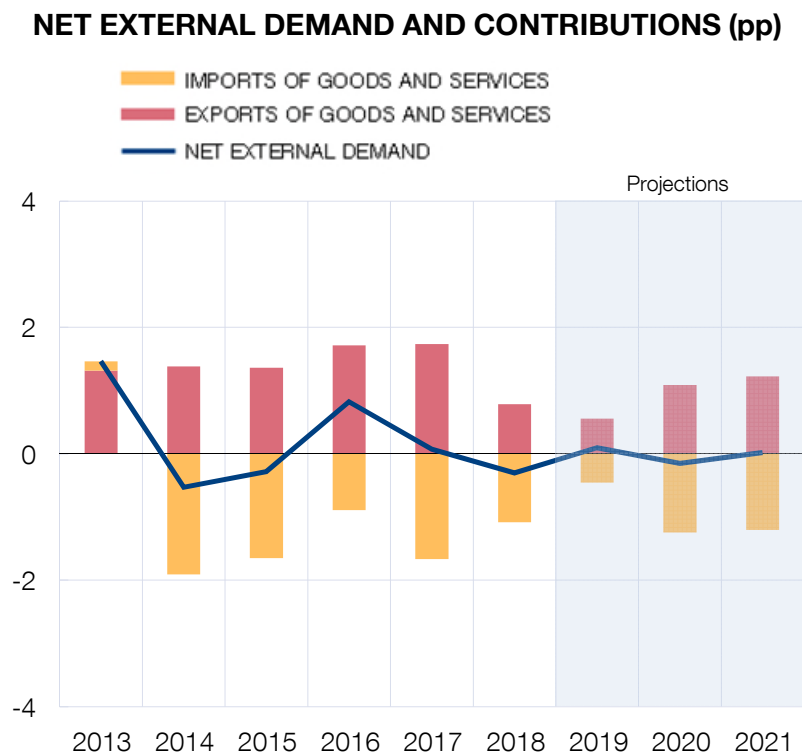
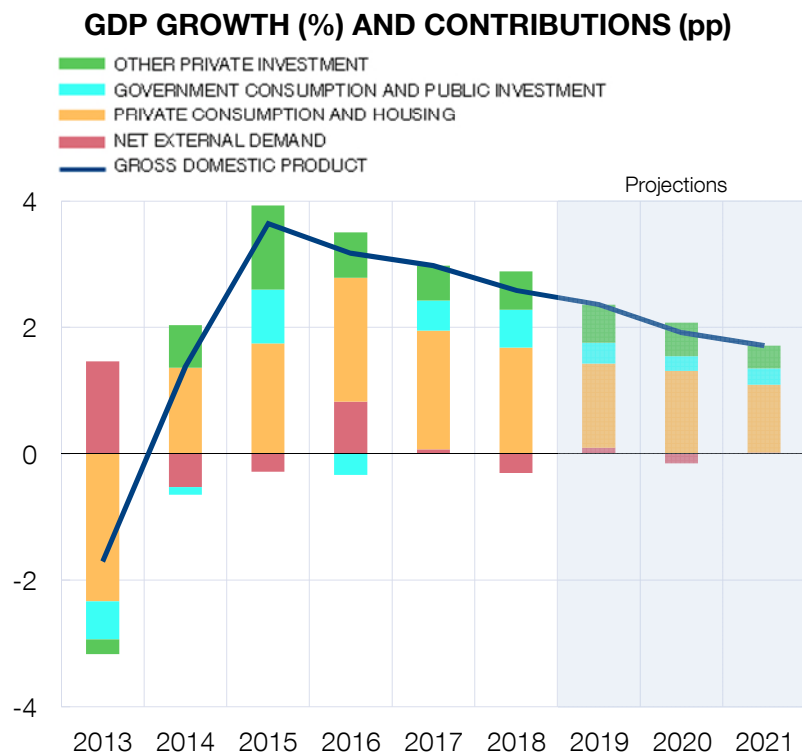
Sources: IGAE and Banco de España.

a. Objectives included in the 2019 Stability Programme Update.

p: projections.

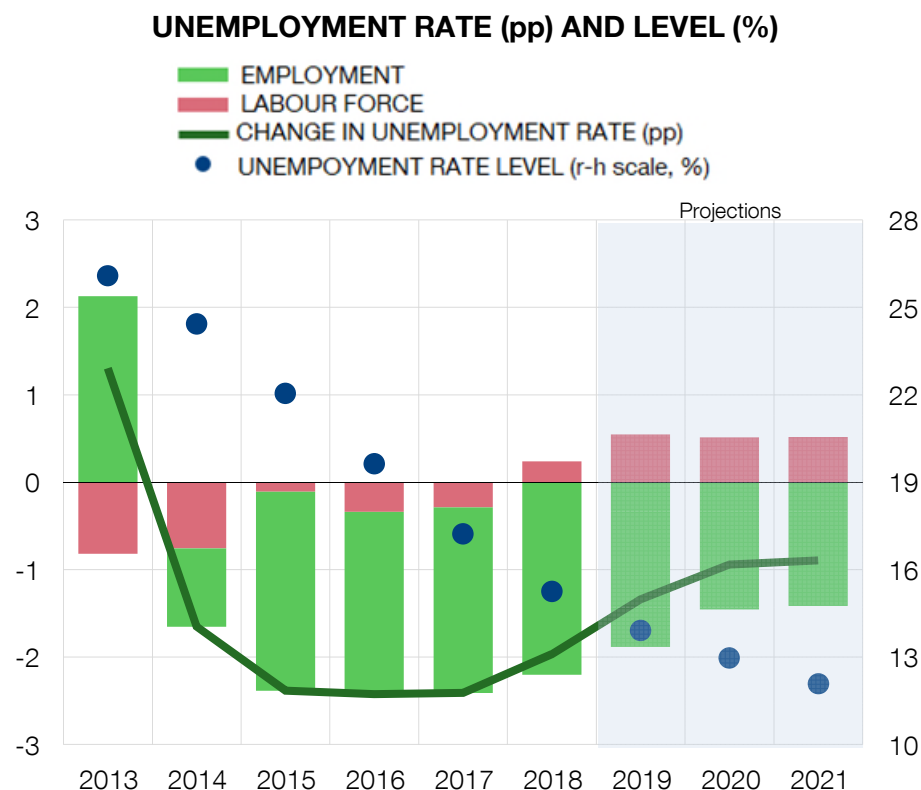
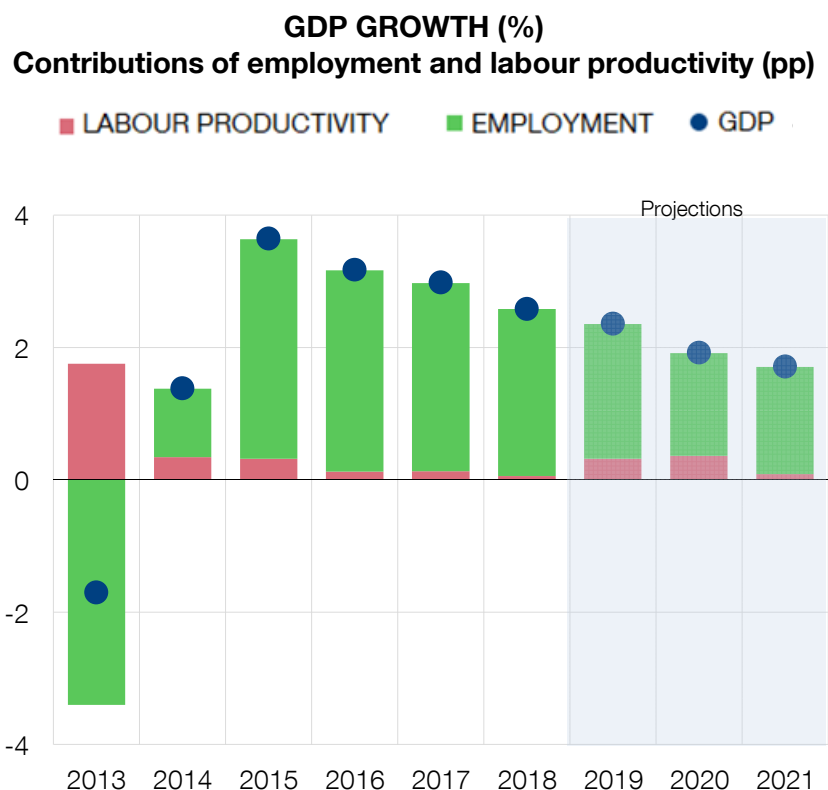
DETERMINANTS OF GDP GROWTH

- The **rise in output will continue to be driven by domestic demand**, for which an across-the-board slowdown is projected in all its components.
- **Net external demand** will make an **approximately zero contribution** in the projection period as a whole.



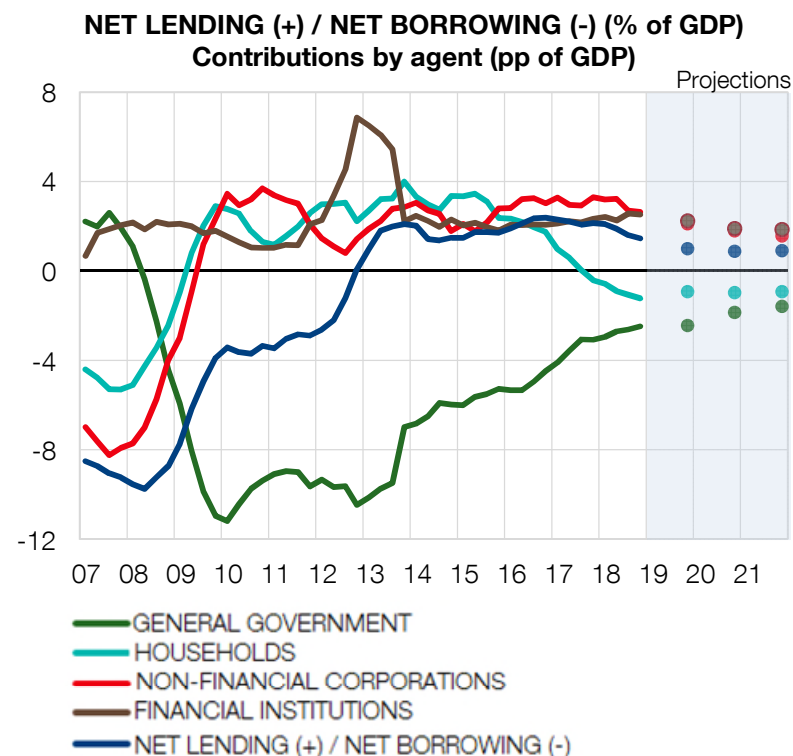
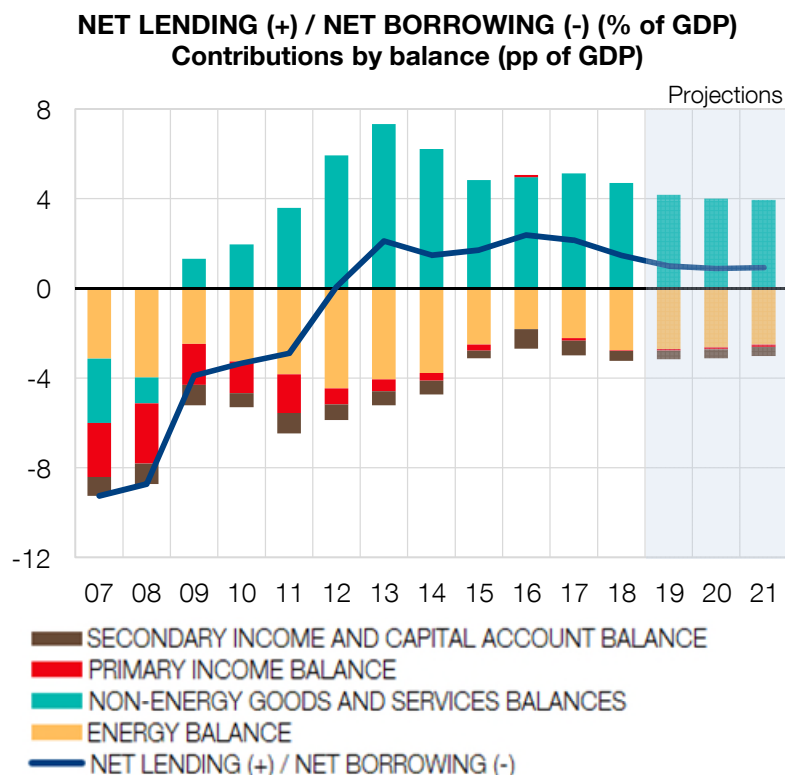
EMPLOYMENT AND UNEMPLOYMENT

- **Very low gains** are expected in **apparent labour productivity**, as is usual in expansions.
- The net job creation will **further reduce the unemployment rate** to slightly below 12% in 2021, against a background of low growth in the labour force.



THE ECONOMY'S NET LENDING POSITION

- Net lending vis-à-vis the rest of the world is expected to decline to around 1% of GDP, reflecting **a certain worsening of the non-energy and services surplus**.
- By sector, the projections are for **household** borrowing to stabilise (favoured by higher household saving), for **general government** borrowing to gradually decrease and for lending by **NFCs** to decline.



Activity:

- *The main risks are from the external environment:*
 - *a potential escalation of trade protectionism and other geopolitical risks, with the subsequent effects on trade and global activity*
 - *uncertainty over the outcome of Brexit*
 - *doubts over the effectiveness of the stimulus measures in China, and their impact on the country's imbalances*
- *On the domestic front:*
 - *uncertainty over the future course of economic policies, against a background of high political fragmentation*

Prices:

- *a hypothetical materialisation of the downside risks to activity*
- *A different-than-expected pass-through of the expansion of unit labour costs to prices.*

PROJECTIONS (2019-2021)

Annual rate of change in volume terms and % of GDP

	2018	June 2019 projections			Changes from March 2019 projections		
		2019	2020	2021	2019	2020	2021
GDP	2.6	2.4	1.9	1.7	0.2	0.0	0.0
Private consumption	2.3	1.8	1.7	1.5	-0.2	0.0	0.1
Government consumption	2.1	1.7	1.3	1.2	-0.1	0.0	0.0
Gross fixed capital formation	5.3	4.1	3.9	2.8	0.2	0.1	0.2
Investment in equipment, intangibles and other (b)	4.3	3.7	3.5	2.5	0.5	0.2	0.4
Investment in construction	6.2	4.6	4.3	3.1	0.0	-0.1	0.0
Exports of goods and services	2.3	1.6	3.2	3.5	-1.6	-0.8	-0.2
Imports of goods and services	3.5	1.4	3.8	3.6	-2.2	-0.8	-0.3
National demand (contribution to growth)	2.9	2.3	2.1	1.7	0.0	0.1	0.0
Net external demand (contribution to growth)	-0.3	0.1	-0.2	0.0	0.2	0.0	0.0
Nominal GDP	3.6	3.3	3.7	3.6	-0.4	0.1	0.1
GDP deflator	1.0	0.9	1.7	1.8	-0.5	0.1	0.0
Harmonised index of consumer prices (HICP)	1.7	1.1	1.3	1.5	-0.1	-0.2	-0.1
HICP excl. energy and food	1.0	1.2	1.5	1.7	0.1	0.0	0.0
Employment (full-time equivalent jobs)	2.5	2.0	1.6	1.6	0.4	0.0	0.0
Unemployment rate (% of labour force). End-of-period data	14.4	13.8	12.4	11.8	-0.1	-0.4	-0.3
Unemployment rate (% of labour force). Annual average	15.3	13.9	13.0	12.1	-0.3	-0.2	-0.2
Net lending (+)/net borrowing (-) of the nation (% of GDP)	1.5	1.0	0.9	0.9	-0.1	0.1	0.2
General government net lending (+)/net borrowing (-) (% of GDP)	-2.5	-2.4	-1.8	-1.6	0.1	0.2	0.2

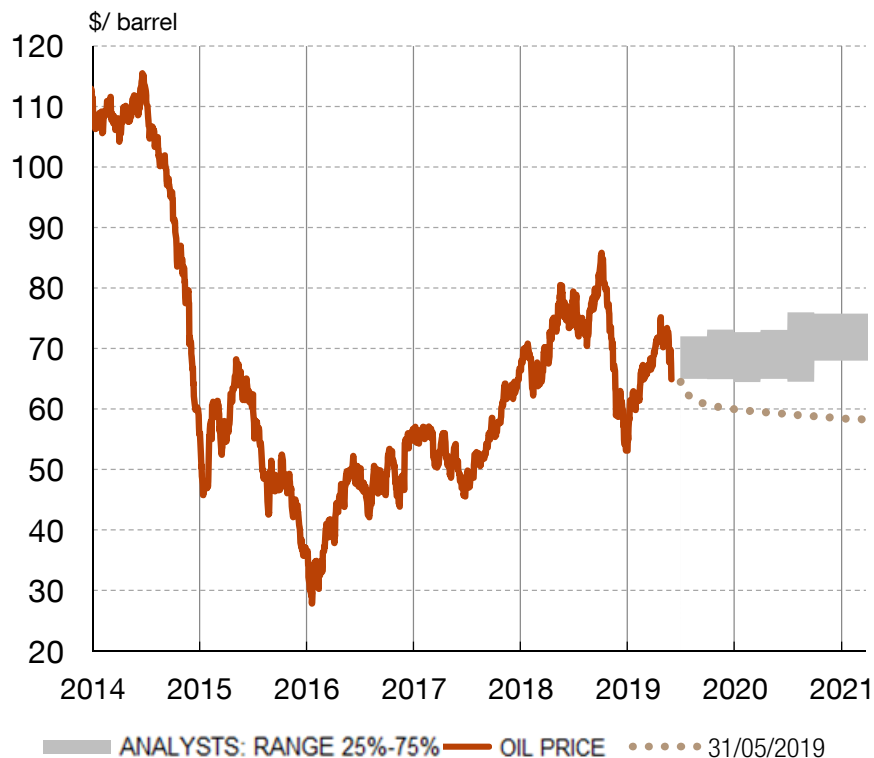
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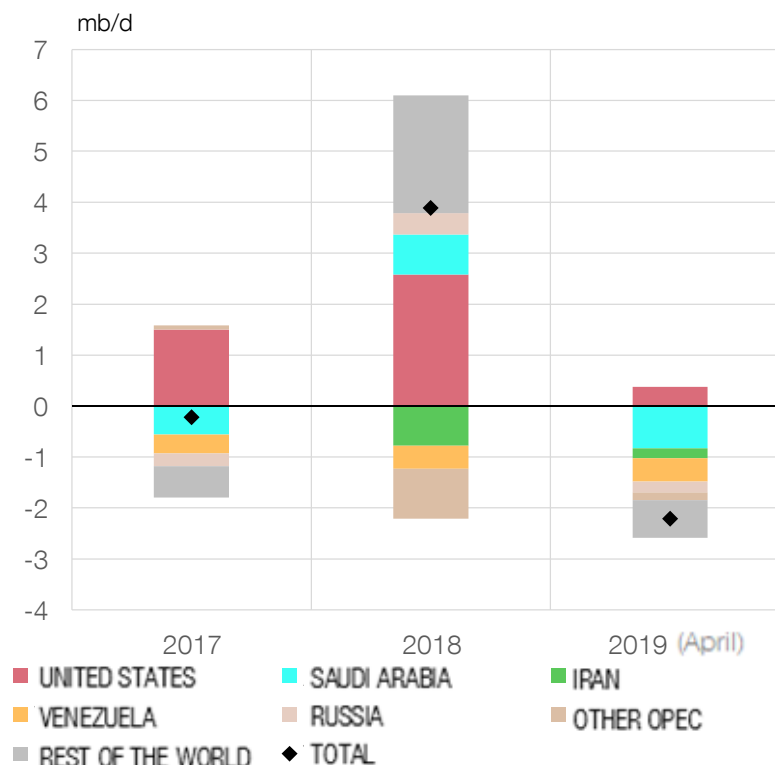
OIL PRICES

- The strong rise in oil prices to end-April is due to **supply-side factors** (cuts by OPEC and its partners, decline in Venezuelan output and sanctions on Iran)
- The recent fall** in prices might denote the weakness of the **demand** for oil following the heightening of trade tensions

OIL PRICES (BRENT)



CHANGE IN PRODUCTION (*)



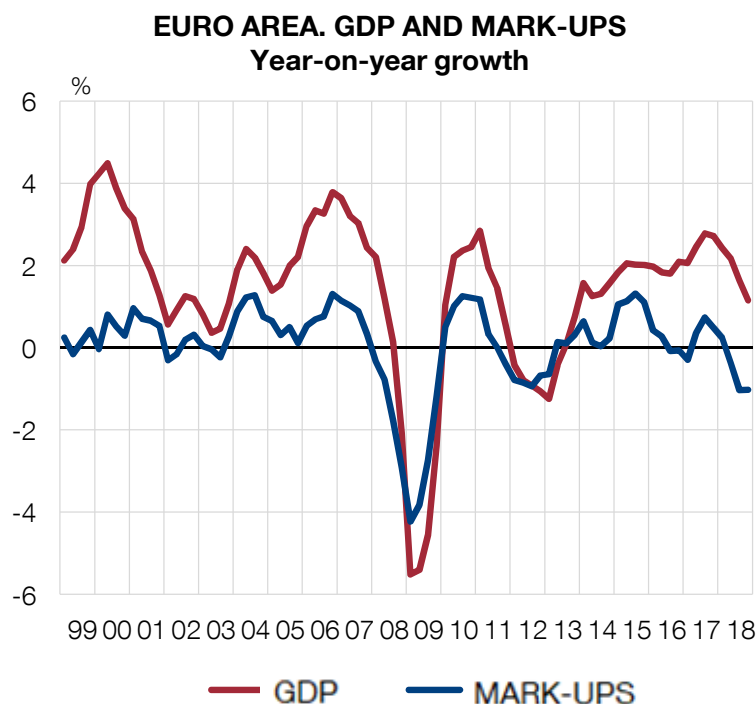
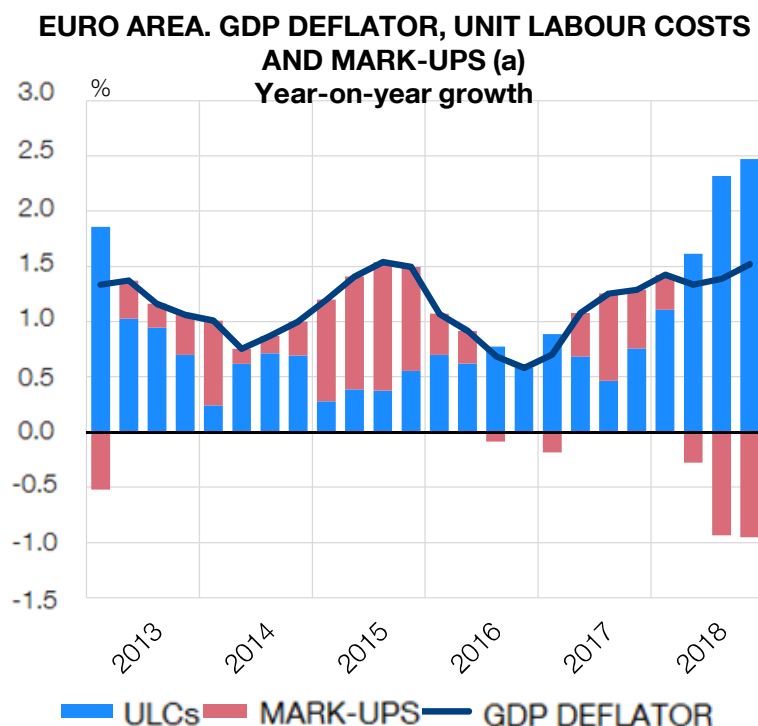
Sources: IFS, International Energy Agency. Latest observation: 31 May 2019. (*) Q4 over Q4, except 2019: April over December.
mb/d : millions of barrels per day.

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EURO AREA: PRICES, LABOUR COSTS AND MARK-UPS (I)

- Persistent, **moderate growth in prices** against a background of **accelerating unit labour costs**, while mark-ups shrink
- In the euro area, the **mark-ups** indicators retain a **procyclical** nature. In recent quarters, the economic slowdown has been accompanied by a decline in mark-ups, a development not seen since 2012, when the economy was submerged in the sovereign debt crisis

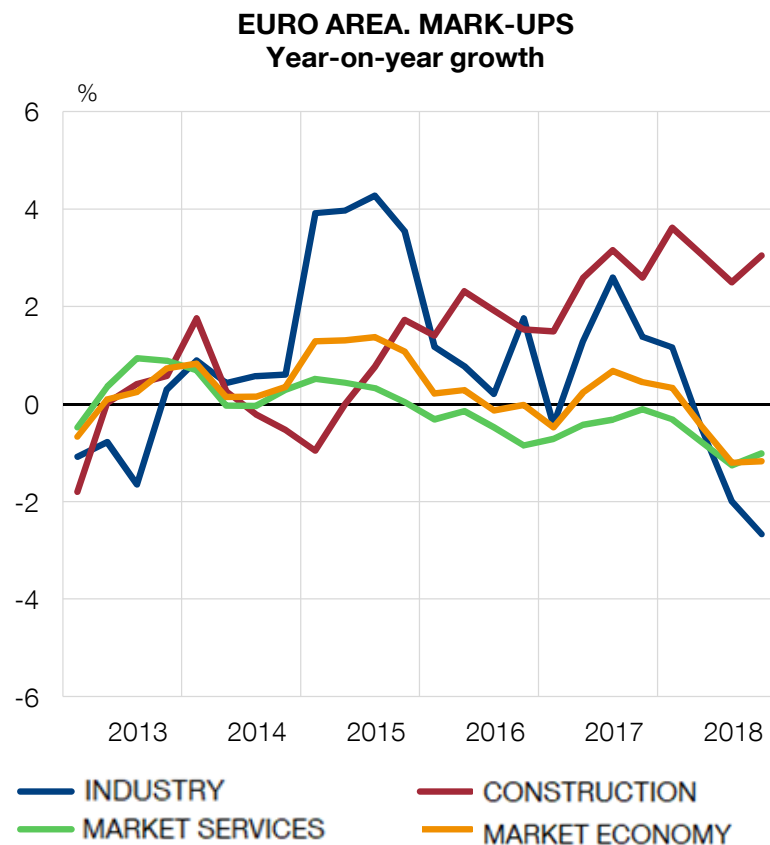
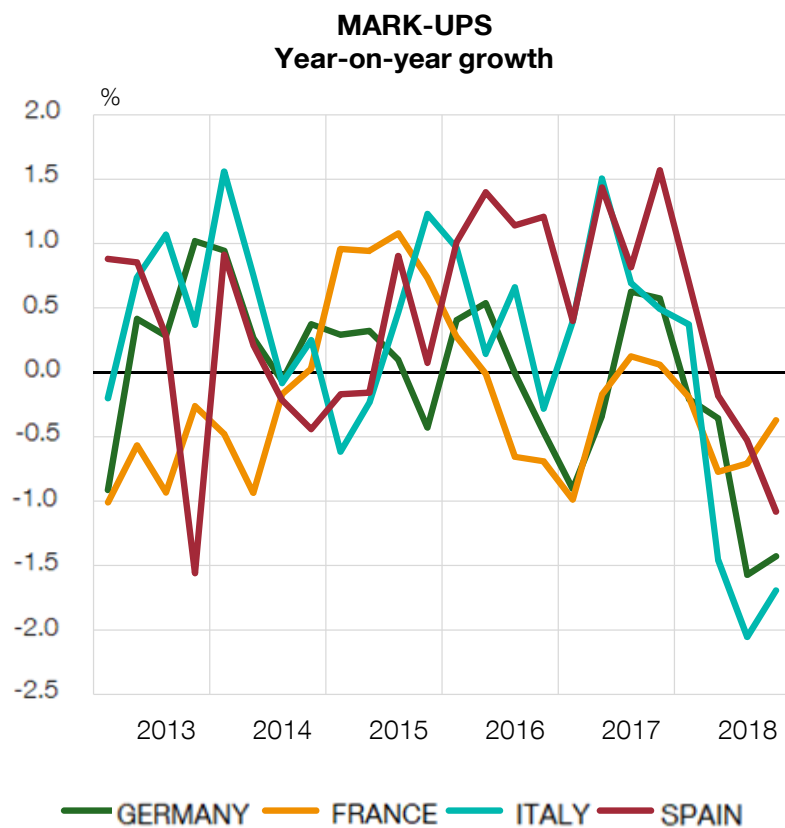


Source: Eurostat.

(a) Mark-ups are defined as the ratio of the GDP deflator to ULCs.

EURO AREA: PRICES, LABOUR COSTS AND MARK-UPS (II)

- The decline in mark-ups in 2018 has been witnessed in the **major euro area economies** and extends to **all sectors of activity**, with the **exception of construction**
- The environment of global **uncertainty** may be contributing to the greater caution shown by European firms when it comes to transferring their cost increases to prices



Source: Eurostat.

THANK YOU FOR YOUR
ATTENTION

