

This update of the projections for the Spanish economy was prepared by the Directorate General Economics, Statistics and Research using the information available as at 21 September. Compared with the previous projections made in June, this update includes, as is usual practice, the changes in the main variables since then (see Table 1).<sup>1</sup> It also contains some items of information not available in June, such as data from the Q2 Quarterly National Accounts and the Q1 Quarterly Non-Financial Accounts for the Institutional Sectors. However, the latest estimates of the Annual National Accounts, released on 15 September, have not been included, despite the fact that they contain significant revisions of the annual data for the period 2011-2014 (see Box 5). The reason for not including this information is that the quarterly time series consistent with the published annual data will not be available until 26 November.

According to the update presented here, the expansionary phase of Spanish economic activity will continue in late 2015 and throughout 2016. Specifically, average GDP growth is projected to reach 3.1% this year and 2.7% next year (see Table 2). These increases coincide with those estimated in June, although the figures entail some changes in the composition of output as detailed below.

The external assumptions entail some significant new developments compared with the projections of the previous *Quarterly Report*. In particular, as described in Section 2 of this Report, the summer months were characterised by a significant worsening of the

outlook for some emerging economies (which gave rise to a substantial downward review of the expected growth rates of demand for Spanish exports originating in these markets). This also helps explain some developments observed in the international commodities and financial assets markets. Specifically, oil prices fell markedly in both the spot and futures markets, and the decrease in metal prices, although smaller, was also notable. Moreover, the worsening of the growth outlook for the world economy and the deflationary effect of cheaper commodities prompted a general decline in interest rates across the various terms, most notably at longer maturities. Finally, the exchange rate of the euro appreciated slightly against the dollar and remained roughly steady against a broad range of currencies. An additional development among the assumptions made in the projections is the incorporation of the effects of the measures included in the draft State Budget, details of which are given in Box 2.

Overall, the impact on GDP growth of the changes in the projection assumptions is roughly neutral, since the negative impact of the worsening in export markets is more or less offset by the expansionary effect of the lower prices of oil and other commodities, lower financing costs and the new fiscal policy measures. All these effects place GDP growth, as mentioned above, at average rates of 3.1% and 2.7% for 2015 and 2016, respectively, the same as in the June update. However, these projections entail a downward revision of 0.4 pp in the envisaged contribution of the net external balance in each of the two years, offset by an equal balance of opposite sign in the contribution of national demand, against a background of slowing external markets over the projection horizon and of buoyant imports. Thus, output growth throughout the projection period will continue to be underpinned by the strength of domestic demand, while net external demand will make a moderate negative contribution in each of the two years of the projection period.

<sup>1</sup> The data cut-off date for the formulation of the external assumptions is 21 September, except in the case of the behaviour of the Spanish export markets, for which use was made of the information included in the September 2015 ECB staff macroeconomic projections for the euro area based on information available up to 12 August.

## 1 INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

Annual rates of change, unless otherwise indicated

	2014	Current projection		Change from June 2015 projection	
		2015	2016	2015	2016
International environment					
World output	3.4	3.0	3.5	-0.2	-0.3
Global markets	3.4	2.2	3.9	-0.3	-1.1
Spain's export markets	3.1	3.1	4.1	-0.3	-0.9
Oil price (in USD)	98.9	53.6	53.4	-8.2	-14.7
Monetary and financial conditions					
Dollar/euro exchange rate (USD per euro)	1.3	1.1	1.1	0.0	0.0
Short-term interest rate (3-month EURIBOR)	0.2	0.0	0.0	0.0	-0.1
Long-term interest rate (10-year bond yield)	2.7	1.8	2.3	-0.2	-0.4

SOURCES: ECB and Banco de España.

a Assumptions cut-off date: 21.09.2015.

Among the components of national demand, household consumption is expected to remain highly dynamic in the period in question, buoyed by the favourable performance of the labour market and by the growth of net wealth against a background of modestly rising house prices and of continuing deleveraging. Further, household spending on consumer goods and services will continue to be driven by the expansionary impact on disposable income of lower oil prices, the reduction in direct taxation and the refund to public workers of the missed 2012 Christmas bonus payment, together with the implementation of certain spending decisions postponed by agents during the crisis.<sup>2</sup> As a result, private consumption is expected to grow by 3.5% this year, slowing to 2.9% in 2016 as some of the previous factors – of a temporary nature – start to lose momentum.

Against a background of improvement in financing conditions, the current gradual recovery in residential investment is expected to continue, as reflected by the modest rise in housing starts and the higher transaction figures. Business investment will keep posting high growth rates as a result of the continuing strength of final demand against a backdrop of improved financial conditions.

<sup>2</sup> See, in this respect, the article entitled “Consumption dynamics in Spain by type of product” in this *Economic Bulletin*.

As regards foreign trade, exports are expected to post moderate growth rates over the projection horizon, in a setting in which the favourable performance of sales to the rest of the euro area, as a result of the improvement of these markets and of the achievement of additional gains in competitiveness, will be offset by the relative weakness of exports to the rest of the world, hampered by the slowdown of these markets. Compared with the previous projections, there is a downward revision of the course of this demand component. Meanwhile, imports will continue to show notable dynamism, growing at rates slightly higher than those foreseen in June, in line with the strength of final demand.

The nation's net lending is expected to be somewhat higher than the June projection (1.4% of GDP and 1.2% of GDP this year and next year, respectively), mainly due to the downward revision of the income deficit.

The dynamism of activity will mean ongoing job creation, favoured by the projected moderation of labour costs. The growth of employment, slightly slower than in the previous projections, will allow the unemployment rate to continue downward to around 20% of the labour force at the end of the projection horizon.

Under the projection assumptions, consumer prices would undergo negative rates of change practically up to the end of this year, resulting

## 2 PROJECTIONS OF THE SPANISH ECONOMY'S MAIN MACROECONOMIC VARIABLES (a) (b)

Annual rate of change in volume terms and % of GDP

	2014	Current projection		June 2015 projection	
		2015	2016	2015	2016
GDP	1.4	3.1	2.7	3.1	2.7
Private consumption	2.4	3.5	2.9	3.4	2.3
Government consumption	0.1	1.1	0.3	0.1	0.1
Gross fixed capital formation	3.4	6.5	6.6	5.9	6.1
Investment in capital goods and intangible assets	12.2	9.8	9.5	8.8	8.9
Investment in construction	-1.5	5.3	4.9	4.8	4.5
Exports of goods and services	4.2	4.9	5.0	5.1	5.7
Imports of goods and services	7.6	6.3	6.4	5.3	5.9
National demand (contribution to growth)	2.2	3.4	3.0	3.1	2.6
Net external demand (contribution to growth)	-0.8	-0.3	-0.3	0.0	0.1
Nominal GDP	0.9	4.1	3.7	3.3	3.3
GDP deflator	-0.5	0.9	1.0	0.2	0.6
Consumer price index (CPI)	-0.2	-0.5	0.8	-0.2	1.3
Employment (full-time equivalents)	1.2	2.8	2.5	2.9	2.6
National economy's net lending (+)/net borrowing (-) (% of GDP)	1.0	1.4	1.2	1.2	1.1

SOURCES: Banco de España and INE.  
Latest QNA figure: 2015 Q2.

a Projections cut-off date: 25 September 2015.

b These projections were prepared from figures published by the INE in the 2015 Q2 QNA. They do not therefore include the latest update of the 2011-2014 annual accounting time series which was published on 15 September.

in a fall of 0.5% in yearly average terms. The subsequent gradual rise would give an average rate of 0.8% in 2016, and levels approaching 2% would still not be reached at the end of the projection period. The oil price falls in the summer months entailed a downward revision of nearly 0.5 pp in consumer price projections for 2016 on those of June. In terms of the CPI excluding unprocessed food and energy, however, the outlook barely changed, with a gradual – albeit moderate – pick-up of this indicator, against a background of decreasing cyclical slack in the economy and of continuing moderate growth of labour costs. It is estimated that the GDP deflator may grow on average by 0.9% this year and by 1% next year.

The balance of risks that the path of GDP will deviate from that of the central scenario is somewhat more negatively tilted compared with

three months ago, basically due to external factors. In particular, there is a probability that some of the main emerging economies, including most notably China, will undergo a sharper showdown. In the domestic arena, the main risk is that the uncertainty over medium-term economic policies may influence agents' spending decisions.

The risk of deviation from the central inflation scenario is tilted moderately to the downside, basically because of the possible materialisation of more unfavourable scenarios at the international level. By contrast, the latest actions of the ECB notably limit any possible risk of deanchoring of inflation expectations. In any event, the uncertainty over the behaviour of the energy component of consumer prices continues to be high as a result of the marked oil price volatility.