SPAIN

After expanding at over 3% in the past three years, the economy is projected to grow at a robust, but more moderate, pace in 2018 and 2019. Favourable financial conditions and strong job creation will continue to support private domestic demand. Net exports will also contribute positively to GDP growth. Inflation will remain moderate as unemployment remains high.

Public debt is gradually declining, but remains high. As the recovery continues, public debt is projected to fall in relation to GDP, but the government will have to ensure further significant declines in the years ahead, by further improving its fiscal position and introducing additional reforms to strengthen long-term growth. The implementation of the pension reform will be key to ensure long-term fiscal sustainability. More effective labour market policies and re-skilling are needed to further reduce unemployment and inequalities, and make growth more inclusive.

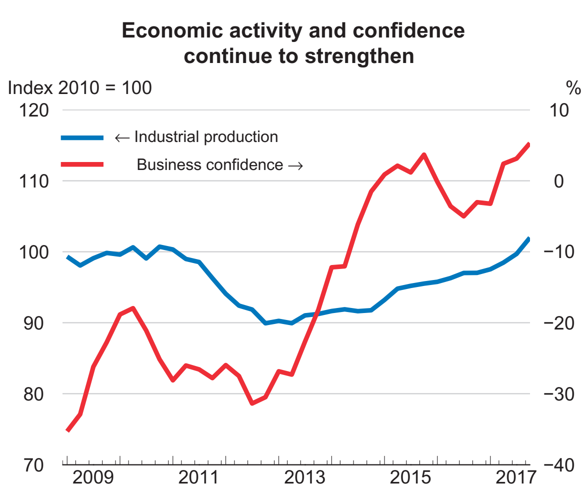
The recovery remains robust and balanced

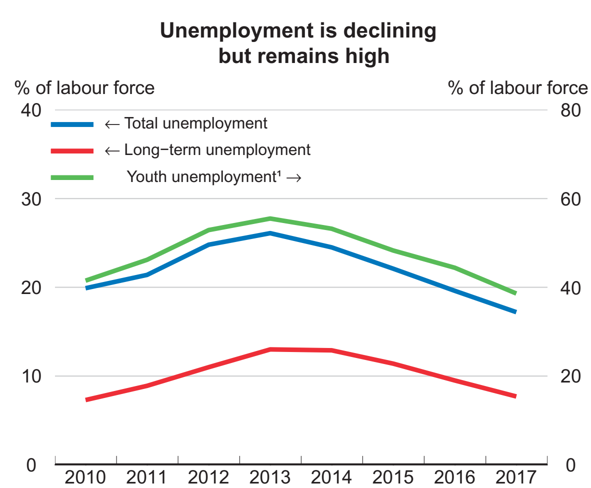
Private consumption continues to be the main driver of growth, with strong employment creation and favourable credit conditions offsetting moderate wage growth. Business investment has picked up due to supportive financing conditions, lower corporate indebtedness and stronger confidence. The housing market is recovering and residential investment has increased strongly. Exports have benefitted from improved competitiveness and favourable external conditions, and continue to contribute positively to GDP growth. The economic consequences of the political uncertainty in Catalonia have been contained so far.

Further structural reforms are needed to sustain growth

Monetary policy in the euro area will remain accommodative, boosting consumption and investment. The budget deficit is projected to decrease further, supported by

Spain





1. As a percentage of 15-24 year-olds labour force.
Source: OECD Main Economic Indicators; and Eurostat.

StatLink http://dx.doi.org/10.1787/888933730579

Spain: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 037.8	3.4	3.3	3.1	2.8	2.4
Private consumption	608.7	3.0	3.0	2.4	2.3	1.8
Government consumption	202.0	2.1	0.8	1.6	1.2	1.1
Gross fixed capital formation	200.3	6.5	3.3	5.0	4.4	4.3
Final domestic demand	1 011.0	3.5	2.6	2.8	2.6	2.2
Stockbuilding[1]	1.6	0.4	0.0	0.1	0.1	0.0
Total domestic demand	1 012.6	4.0	2.6	2.9	2.6	2.2
Exports of goods and services	339.5	4.2	4.8	5.0	4.6	4.5
Imports of goods and services	314.3	5.9	2.7	4.7	4.2	4.2
Net exports[1]	25.2	-0.4	0.7	0.3	0.3	0.2
Memorandum items						
GDP deflator	_	0.6	0.3	1.0	2.0	1.5
Harmonised index of consumer prices	_	-0.6	-0.3	2.0	1.6	1.5
Harmonised index of core inflation[2]	_	0.3	0.7	1.2	1.3	1.5
Unemployment rate (% of labour force)	_	22.1	19.6	17.2	15.5	13.8
Household saving ratio, net (% of disposable income)	_	2.8	1.7	-0.6	-1.3	-1.4
General government financial balance (% of GDP)	_	-5.3	-4.5	-3.1	-2.4	-1.5
General government gross debt (% of GDP)	_	116.4	116.6	114.8	113.5	111.9
General government debt, Maastricht definition (% of GDP)	_	99.4	99.0	98.3	97.1	96.0
Current account balance (% of GDP)	_	1.1	1.9	1.9	1.7	1.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933731491

favourable macroeconomic conditions. Fiscal policy is supporting growth this year, but the broadly neutral fiscal stance planned for 2019 is appropriate, as it balances the need for continued growth with the sustainability of public debt. To ensure a steady reduction of the high ratio of public debt to GDP, the government should stick to its medium-term fiscal targets.

Improving job opportunities for the unemployed and facilitating their return to work is key to further lowering inequalities. Increasing the effectiveness of active labour market policies and decreasing labour market duality, by better supervision of abuse of temporary jobs, would help address the challenges rising from high long-term and youth unemployment. Improved access to vocational education and training, and adult education programmes would also enhance the labour market prospects of vulnerable groups.

The structure of taxation remains tilted towards labour income, which penalises growth and employment. Reforming taxation by phasing out exemptions and further improving VAT administration would improve the efficiency of the tax system. Moreover, making more use of environmental taxes would strengthen green growth. Further reducing barriers in service sectors would bring employment and productivity gains, a necessary condition for sustainable medium-term growth and higher living standards. Continuing the reduction of early school leaving rates and increasing the share of the workforce with at least secondary education are also essential in this regard.

The pace of the recovery will moderate

GDP growth is set to slow gradually to 2.8% in 2018 and 2.4% in 2019. Private consumption is projected to slow down as the pace of job creation moderates, but will remain the main driver of growth. Business investment is set to ease gradually, as the effect of pent-up demand subsides. Exports are expected to continue growing dynamically, but at slightly lower rates than in 2017, as export market growth decelerates slightly. The unemployment rate is projected to further edge down to 13.8% in 2019. Risks stem from internal and external factors. Persistent uncertainty in Catalonia could lower confidence, hampering domestic demand. A minority government could face difficulties in pushing the national reform agenda further. An increase in oil prices would create pressures on inflation. Conversely, higher construction investment and stronger demand from Europe, Spain's main export destination, would boost growth more than projected.