SPAIN

The recovery is projected to remain robust in 2017 and 2018, although at a more moderate pace as the boost to private consumption provided by low oil prices and lower taxes eases. Growth will be driven by both domestic demand, supported by low interest rates and strong employment growth, and a positive external outlook. Inflation will remain subdued due to still high unemployment.

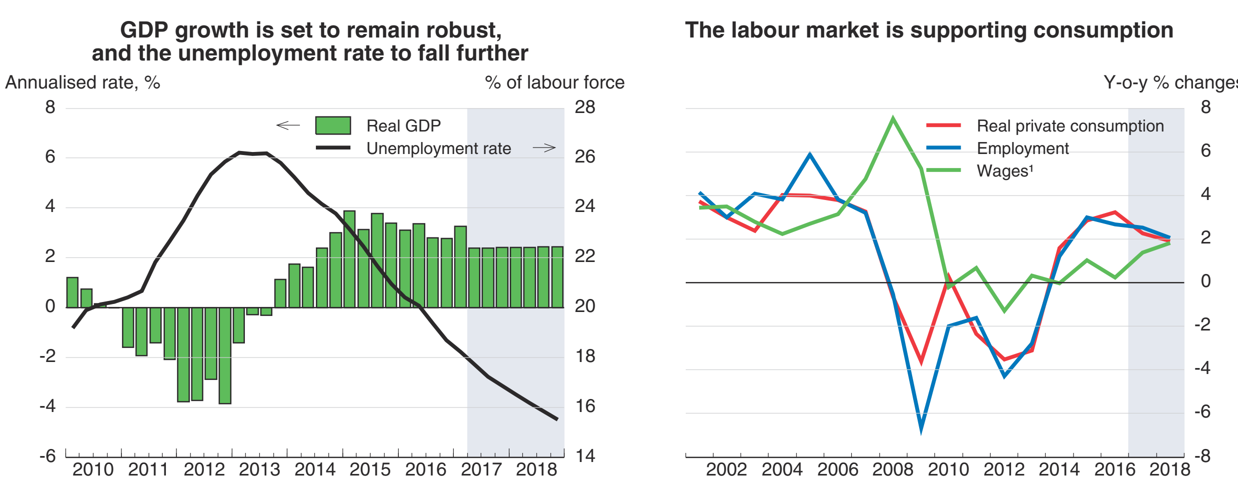
The fiscal stance will be broadly neutral over the projection period. Public debt relative to GDP has been slowly decreasing, but remains high. The government should stick to its medium-term consolidation path to ensure a gradually declining debt-to-GDP ratio. Structural reforms have contributed to improved competitiveness and strong employment growth, but more effective labour market policies and re-skilling are needed to further reduce unemployment.

Exports have risen from 25% of GDP in 2005 to 33% in 2016. Spain could reap further the benefits from globalisation and boost productivity by reducing regulatory barriers in product markets and encouraging higher investment in R&D and innovation. Decreasing labour market duality and strengthening skills by improving access to vocational education and training would help workers adapt to changing labour market needs due to globalisation and other factors.

Growth remains robust

The recovery is being driven by both domestic demand and exports, and is supported by strong employment growth and expansionary monetary policy. Exports are benefitting from gains in competitiveness and expansion of export markets in recent years. A temporary rise in headline inflation due to energy price increases in the first quarter of 2017 has adversely affected private consumption, but employment and consumer confidence continued to strengthen. Business investment has picked up due to favourable financing conditions, lower corporate indebtedness and stronger confidence.

Spain



1. In nominal terms.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933503700

Spain: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 025.6	1.4	3.2	3.2	2.8	2.4
Private consumption	598.5	1.6	2.9	3.2	2.3	1.9
Government consumption	201.8	-0.3	2.0	0.8	0.8	0.7
Gross fixed capital formation	192.4	3.8	6.0	3.1	3.9	4.9
Final domestic demand	992.7	1.6	3.3	2.7	2.3	2.3
Stockbuilding[1]	- 0.5	0.3	0.1	0.1	0.0	0.0
Total domestic demand	992.2	1.9	3.4	2.9	2.3	2.3
Exports of goods and services	330.5	4.2	4.9	4.4	6.7	5.0
Imports of goods and services	297.1	6.5	5.6	3.3	5.5	4.9
Net exports[1]	33.4	-0.5	-0.1	0.5	0.5	0.2
Memorandum items						
GDP deflator	_	-0.3	0.5	0.3	1.4	1.4
Harmonised index of consumer prices	_	-0.2	-0.6	-0.3	2.3	1.4
Private consumption deflator	_	0.2	-0.2	-0.2	1.8	1.4
Unemployment rate	_	24.4	22.1	19.6	17.5	16.0
Household saving ratio, net[2]	_	3.2	2.3	1.7	1.7	1.5
General government financial balance[3]	_	-6.0	-5.1	-4.5	-3.1	-2.3
General government gross debt[3]	_	118.5	116.8	117.2	116.9	116.1
General government debt, Maastricht definition[3]	_	100.4	99.8	99.4	99.0	98.6
Current account balance[3]	_	1.1	1.4	2.0	2.1	2.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933506132

Ensuring sustainable and inclusive growth

The budget deficit declined to 4.5% of GDP in 2016 and is projected to decline further due to the recent broadening of the corporate tax base and to improved value-added tax collection. Given the high public debt, the government should stick to its medium-term fiscal targets, notably in structural terms, to allow a steady reduction of the ratio of debt to GDP. Monetary policy in the euro area will remain highly accommodative, boosting consumption and investment.

Further reforms to boost productivity growth would contribute to improved competitiveness and the greater internationalisation of Spanish firms. The implementation of the market unity law should help improve business regulation, but policies are needed to foster competition in professional services. Increasing public and private funding for innovative firms at the seed and early start-up phases would help address the under-investment in knowledge-based capital. Improving access to finance by small and medium-sized enterprises via better bond and loan securitisation tools and eliminating regulatory barriers to firms' expansion would help integrate Spain further into global markets.

Ensuring that the benefits of globalisation are shared equally requires a skilled and flexible labour force. Improved access to vocational education and training, and adult education programmes would boost skills. Increasing the effectiveness of active labour market policies and decreasing labour market duality would increase job quality, improve job matching, and help fight youth and long-term unemployment, which remain very high. These policies would also contribute to spreading the benefits of the recovery and globalisation as widely as possible.

The pace of the recovery will moderate

GDP growth is projected to slow gradually to 2.8% in 2017 and 2.4% in 2018, as the boost to private consumption provided by low oil prices and lower taxes eases. Nevertheless, strong job creation and a gradual rise in wages will continue to support household consumption. Continued favourable financing conditions will extend the pick-up in business and housing investment. Export growth will remain strong but imports will also increase as investment rises and the positive contribution of external demand to growth will decline slightly over the projection period. Inflation will increase slightly as the unemployment rate falls further and the output gap closes, but remain subdued due to still significant slack.

A minority government could face difficulties in pushing the national reform agenda further, resulting in weaker growth. Renewed financial turbulence in international markets and weaker-than-projected growth in Europe would temper growth. On the upside, higher construction investment and stronger demand from Europe, Spain's main export destination, would boost growth more than projected.