

SPAIN

Economic growth has been strong but is projected to moderate in 2019 and 2020. Even so, the unemployment rate will continue to decline, but remain high. Domestic demand, supported by low interest rates and strong employment growth, will remain the main driver of growth.

A durable reduction in the high public debt-to-GDP-ratio will require further reductions in the structural balance and the government should stick to medium-term fiscal consolidation targets. It will also require maintaining strong economic growth. To boost growth, productivity-enhancing reforms to increase competition and innovation, and to improve skills, will be needed. This would also generate better paid jobs and reduce inequalities.

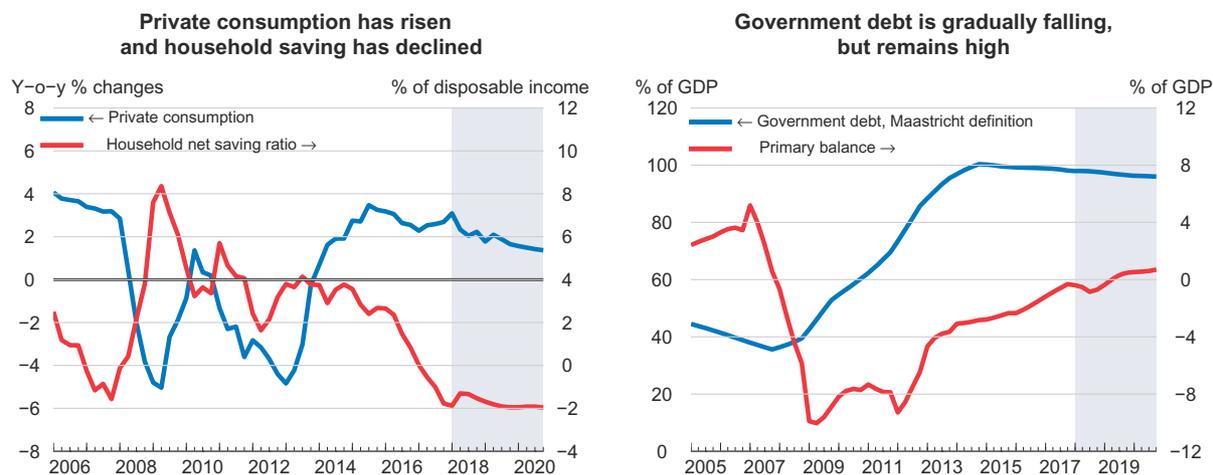
Domestic demand remains the main driver of growth

Domestic demand remains robust, even though the effects of past tailwinds from low oil prices and lower taxes have dissipated. Favourable financial conditions, strong employment gains and measures in the 2018 budget, such as wage and pension increases, continue to support private consumption. Business investment continues to grow, supported by low financing costs and improved profit margins. Export growth has moderated, as export market growth has declined.

Policy measures should address remaining imbalances and low productivity growth

Monetary policy in the euro area will remain accommodative, boosting investment and consumption. The fiscal stance has also provided support to growth this year; the deficit will reach 2.7% of GDP in 2018, higher than initially expected. Fiscal policy is projected to be broadly neutral in 2019-20. The government should stick to medium-term fiscal consolidation targets to ensure a durable reduction of the public debt-to-GDP ratio, and any positive growth surprise should be used to reduce debt further.

Spain



Source: OECD Economic Outlook 104 database.

StatLink  <http://dx.doi.org/10.1787/888933877259>

Spain: **Demand, output and prices**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------------------|---|-------|-------|-------|-------|
| | Current prices EUR billion | Percentage changes, volume (2010 prices) | | | | |
| GDP at market prices | 1 081.2 | 3.2 | 3.0 | 2.6 | 2.2 | 1.9 |
| Private consumption | 626.0 | 2.9 | 2.5 | 2.4 | 1.8 | 1.5 |
| Government consumption | 208.9 | 1.0 | 1.9 | 2.1 | 1.6 | 1.3 |
| Gross fixed capital formation | 214.7 | 2.9 | 4.8 | 6.1 | 3.8 | 3.8 |
| Final domestic demand | 1 049.7 | 2.5 | 2.9 | 3.1 | 2.2 | 2.0 |
| Stockbuilding ¹ | 6.3 | -0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Total domestic demand | 1 055.9 | 2.4 | 3.0 | 3.2 | 2.3 | 1.9 |
| Exports of goods and services | 356.1 | 5.2 | 5.2 | 1.6 | 2.8 | 4.0 |
| Imports of goods and services | 330.9 | 2.9 | 5.6 | 3.5 | 2.9 | 4.1 |
| Net exports ¹ | 25.2 | 0.8 | 0.1 | -0.5 | 0.0 | 0.0 |
| <i>Memorandum items</i> | | | | | | |
| GDP deflator | – | 0.3 | 1.2 | 0.9 | 1.9 | 1.8 |
| Harmonised index of consumer prices | – | -0.3 | 2.0 | 1.9 | 1.9 | 1.7 |
| Harmonised index of core inflation ² | – | 0.7 | 1.2 | 1.2 | 1.6 | 1.7 |
| Unemployment rate (% of labour force) | – | 19.6 | 17.2 | 15.3 | 13.8 | 12.5 |
| Household saving ratio, net (% of disposable income) | – | 1.8 | -0.8 | -1.5 | -1.8 | -1.9 |
| General government financial balance (% of GDP) | – | -4.5 | -3.1 | -2.7 | -1.8 | -1.2 |
| General government gross debt (% of GDP) | – | 116.5 | 114.7 | 114.6 | 113.1 | 111.4 |
| General government debt, Maastricht definition (% of GDP) | – | 99.0 | 98.1 | 97.7 | 96.5 | 96.0 |
| Current account balance (% of GDP) | – | 2.3 | 1.8 | 1.0 | 1.0 | 1.0 |

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 104 database.

StatLink  <http://dx.doi.org/10.1787/888933878171>

The labour market remains segmented, with high rates of youth and long-term unemployment and temporary contracts. Continuing efforts to fight against the abuse of temporary contracts is key to reducing labour market duality. Improving co-ordination of social and employment services would lower unemployment and inequalities. Increasing the provision of early childhood education for children between the ages of 0 and 3 would boost labour participation of women and improve future skill formation, especially for children from disadvantaged backgrounds. Improved teacher training and further extensions of dual vocational education and training would also boost skills and enhance the labour market prospects of vulnerable groups.

Low productivity growth is hampering the generation of sustainable and inclusive growth. Ensuring the effective implementation of prior structural reforms addressing the internal fragmentation of product markets is key to creating economies of scale. Further increasing the co-ordination and evaluation of regional and national innovation policies to avoid duplication and encouraging greater scale and specialisation of universities would raise the quality of innovation.

Growth is projected to moderate

GDP growth is projected to gradually slow to 2.2% and 1.9% in 2019 and 2020, respectively. Domestic demand will moderate, as the pace of job creation slows and

household saving starts to stabilise at its currently low level. The current account will remain in surplus, but lower than in the past two years, as export growth moderates with weaker export market growth. Given the high share of temporary and part-time jobs, wage growth is set to remain moderate, as the unemployment rate remains high. Inflation will slowly increase as slack dissipates, but remain subdued.

Risks to the outlook remain sizeable. Slower-than-projected global trade growth would undermine exports. Turbulence in international markets and political uncertainty could lower private sector confidence, hampering domestic demand. On the upside, domestic demand could prove more resilient than expected if job creation is stronger than anticipated.