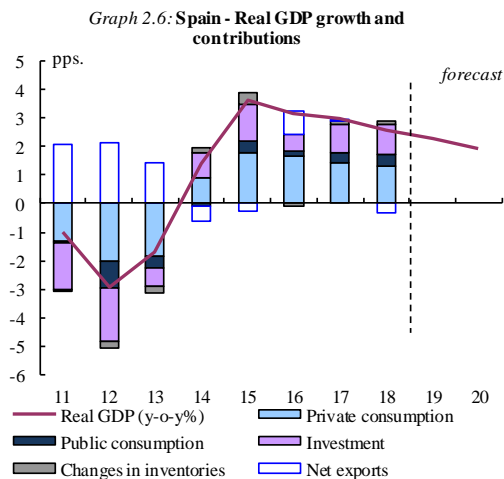


2.6. SPAIN

Real GDP growth was stronger than expected in the first quarter of 2019, when it accelerated to a rate of 0.7% (quarter-on-quarter). The growth surprise arose from the positive contribution of net exports, as imports contracted slightly. On the domestic side, dynamic equipment and housing investment offset weak consumption growth. Survey and activity indicators for the second quarter point to a deceleration, with growth expected at 0.6% (quarter-on-quarter). This is nevertheless higher than projected in spring, as consumption regains some momentum. As a result of the higher than expected growth in the first half of this year, real GDP is now forecast to expand by 2.3% in 2019, 0.2 pps. higher than projected in spring.

Growth is expected to ease slightly further in the third quarter of 2019 and to stabilise at a rate of about 0.5% (quarter-on-quarter) for the remaining quarters of the forecast horizon, broadly unchanged compared to spring. The annual GDP growth rate forecast for 2020 remains unchanged at 1.9%. In terms of composition, domestic demand, and in particular consumption, is expected to remain the main growth driver, with a broadly neutral contribution of net exports to growth. In a context of global trade tensions, Spain's exports and imports are still expected to recover, but by less than anticipated in spring. Employment growth should slow down over the forecast horizon, but continue to expand robustly, allowing for further reductions in the unemployment rate. Together with wage increases, this should support disposable income growth and a higher household saving rate.



Headline inflation reached 1.7% in 2018 and is forecast to decline to 0.9% this year, mainly due to base effects from oil price developments. It is then set to increase to 1.2% in 2020, as core inflation gradually picks up.