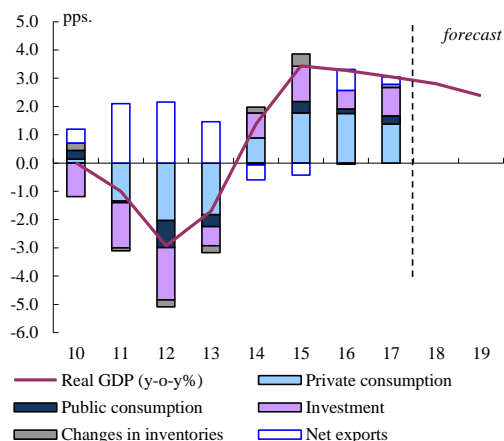## 2.9. SPAIN

Spain's economy grew by 3.1% in 2017 and continues to show, so far, little sign of slowing down. GDP expanded by 0.7% (q-o-q) in 2018-Q1, unchanged from the two previous quarters. Both soft and hard indicators, including administrative employment data, point to a similar expansion in 2018-Q2. The composition of growth in the first quarter reveals weaker-than-expected net exports and non-construction investment, which were offset by strong consumption and residential construction.

Over the forecast horizon, consumption and construction investment are expected to remain the most dynamic demand components. The higher-than-anticipated rise in oil prices since the spring is expected to have a negative impact on domestic demand in 2018 and, to a lesser extent, in 2019. In addition, a less favourable external environment should result in a slightly smaller contribution of net exports to growth. At the same time, the additional expansionary measures that were included in the budget law for 2018 (approved on 28 June, after the cut-off date of the spring forecast) are expected to provide an additional boost to growth in 2018, mainly via private consumption. Consumer spending should also benefit from higher-than-expected real wage growth and dynamic job creation over the forecast horizon. The net effect of these offsetting factors on real GDP growth is slightly negative for 2018, leading to a downward revision by 0.1 pps. compared to spring, to 2.8%. For 2019, the net effect is broadly neutral, with the forecast remaining at 2.4%.

Graph 2.9: **Spain - Real GDP growth and contributions**

HICP inflation has been rising throughout the first half of the year, reaching 2.1% in May, driven by oil price developments. It is expected to peak in 2018-Q3 and then moderate to an annual average of 1.8% in 2018 and 1.6% in 2019. Core inflation is expected to gradually increase over the forecast horizon, as the output gap turns firmly positive and wage growth in the private sector accelerates following the latest framework agreement between the social partners.