

**2.9. SPAIN: UPWARD REVISION TO GROWTH IN 2018**

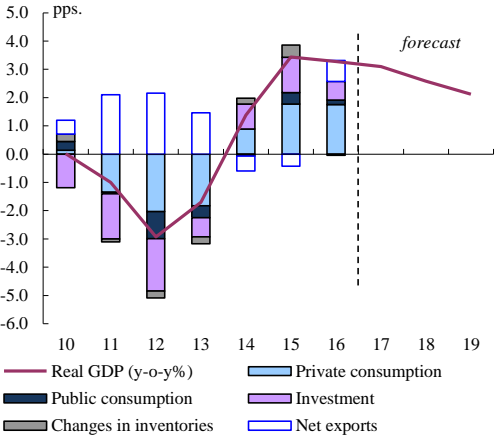
At 0.8%, quarterly GDP growth was strong in the third quarter of 2017, driven by strong private consumption, buoyant equipment investment and positive, but declining contribution of net exports to growth. According to the GDP flash estimate, growth slightly decreased to 0.7% (q-o-q) during the fourth quarter, bringing the annual growth rate for 2017 to 3.1%.

The strong growth momentum in the second half of 2017 has resulted in a higher growth carry over into 2018 than anticipated in the autumn forecast, and an upward revision to growth this year, to 2.6%. Growth is expected to ease over the forecast horizon, to an annual rate of 2.1% in 2019. Although the consequences for growth of recent events in Catalonia have remained contained, future developments could still have an impact, the size of which cannot be anticipated at this stage.

Private consumption growth is expected to slow down as the pace of job creation moderates but should nevertheless remain the main driver of GDP growth. Labour market indicators show conflicting signals, with administrative employment data showing a more positive outlook than the labour force survey. At the same time, other factors that supported the growth of household consumption in recent years, such as the improvement in financial conditions, are expected to fade away, while higher oil prices could act as a drag on disposable incomes. Residential construction and equipment investment growth are set to ease gradually, the latter in line with the projected slowdown in final demand.

Exports are set to continue growing dynamically but at slightly lower rates in 2018 and 2019, as gains in export market shares should slow down. At the same time, import growth is expected to remain broadly stable, evolving in line with fundamentals. As exports are expected to continue growing faster than imports, the contribution of the external sector is expected to remain positive, but become smaller over the forecast period.

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



After moderating in the second half of last year, headline inflation is expected to increase again in the first half of this year before declining towards the end of 2018 due to base effects from oil prices, reaching an annual average of 1.6%. HICP is then expected to decline to an annual average of 1.5% in 2019 as oil prices decline again. Core inflation should recover gradually over the forecast horizon as wages pick up and the output gap turns firmly positive.