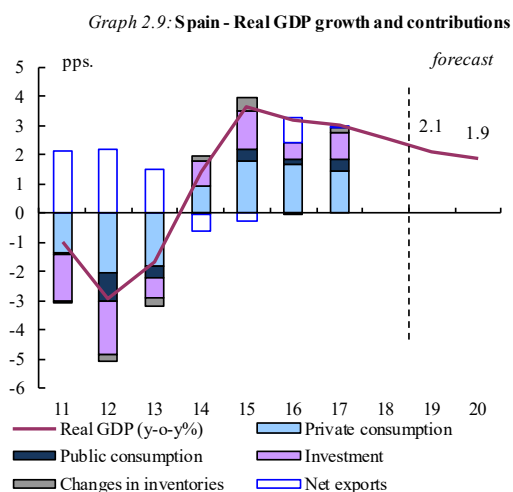


2.9. SPAIN

The expected mild deceleration of real GDP growth materialised in the first three quarters of 2018. In the last quarter, real GDP growth regained some momentum and expanded by a robust 0.7%, partly due to a rebound in net exports. Still, for the whole of last year, net exports detracted 0.4 pps. from growth, while domestic demand kept growing robustly. As a result, real GDP in 2018 grew by 2.5%, 0.5 pps. less than in 2017, and 0.1 pps. lower than projected in the autumn forecast.

Growth is expected to decelerate further to 2.1% in 2019 and 1.9% in 2020 (also 0.1 pps. lower than in the autumn forecast for both years), as the cycle matures. The deceleration is mainly driven by a slowdown in private consumption, which is expected to grow more slowly than disposable income, as pent-up demand is absorbed and households increase their saving rate. The latter is projected to rebound in 2019 from the historic low recorded in 2018 and increase slightly further in 2020. Job creation is forecast to ease, also due to the expected dampening impact of the increase in the minimum wage. Still, employment growth is set to allow for further reductions in the unemployment rate. Investment in both equipment and construction is also expected to decelerate in line with final demand, after buoyant growth in recent years.



The contribution of the external sector to growth is projected to remain negative but improve in 2019, and turn neutral in 2020. Despite weak growth in global trade, exports are forecast to accelerate slightly in 2019 and 2020, as Spain's export market shares gradually improve after a sharp deterioration in 2018. At the same time, imports are expected to decelerate broadly in line with final demand.

Risks to the forecast relate mainly to a weaker than expected global environment and increased uncertainty, both domestic and external.

Headline inflation reached 1.7% in 2018 and is forecast to decline to 1.2% in 2019 due to base effects from oil price developments. It is then set to increase to 1.5% in 2020, as core inflation gradually picks up. Wage growth is expected to accelerate in 2019, partly under the impact of the increase in the minimum wage, and to moderate but still be above inflation in 2020.