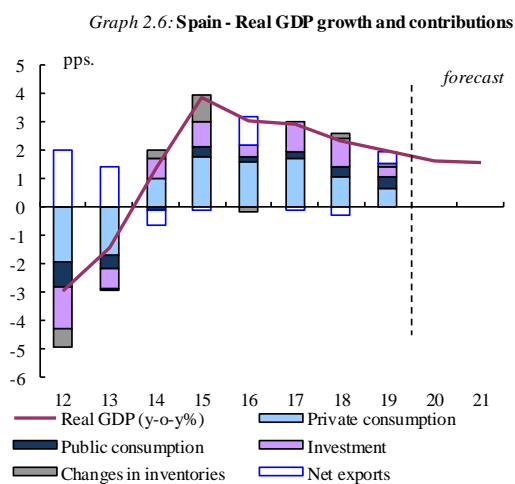


2.6. SPAIN

The expected slowdown of the Spanish economy in the second half of 2019 was milder than anticipated, due to a small recovery of private consumption. Quarterly real GDP growth came in at 0.4% in 2019-Q3 and 0.5% q-o-q in 2019-Q4, 0.1 pps. and 0.2 pps. higher, respectively, than projected in the autumn forecast. As a result, real GDP growth for 2019 has been revised upward by 0.1 pps. to 2.0%. Over the year, the reported composition of growth has been very volatile, but overall, domestic demand weakened compared to the previous year, whereas the contribution of net exports to growth became positive.

Going forward, the composition of growth in the second half of 2019 also points to more resilient domestic demand and thus a slightly more positive outlook than previously anticipated. Growth is now expected to stabilise at a quarterly rate of about 0.4% over the forecast horizon. As a consequence, the annual GDP growth forecast for 2020 and 2021 is also revised up compared to autumn by 0.1 pps., to 1.6% and 1.5%, respectively. Private consumption should be sustained by increases in real disposable income and a more moderate rise in the household savings rate. Investment is also expected to recover over the forecast horizon after a weak end of 2019, in line with final demand. At the same time, the contribution of net exports to growth should diminish in 2020 and become broadly neutral in 2021, as export growth remains subdued and imports accelerate.



Headline inflation reached 0.8% in 2019, 0.1 pps. lower than projected in autumn. It is forecast to increase to 1.2% in 2020 and rise only marginally to 1.3% in 2021, as the impact of oil price developments is offset by a gradual increase in core inflation.