Spain

Subject **Page**

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U.S. Embassy & Consulate in Spain and Andorra

Ambassador Duke Buchan III   U.S. Ambassador to Spain and Andorra

Richard Duke Buchan III ("Duke") was sworn in by Vice President Michael R. Pence on December 11, 2017 as the U.S. Ambassador to the Kingdom of Spain and the Principality of Andorra. Prior to arriving in Madrid, Mr. Buchan was CEO of Hunter Global Investors L.P., which he founded in 2001 in New York City. Hunter invests in global markets including real estate, venture capital, private equity, and public securities. Hunter's flagship multi-strategy fund cumulative returns since inception are approximately 2.3 times the S&P 500 Index. Mr. Buchan worked at several large global financial firms based in New York City before founding Hunter. He has traveled, lived, and/or conducted business in over 50 countries including Spain and other European countries, Latin America, and Asia for almost four decades.

Mr. Buchan has been involved in a number of educational and philanthropic causes. As an example, his family established The Buchan Excellence Fund, the largest single endowment at The University of North Carolina at Chapel Hill focused on Spanish languages, literature, and culture. The Fund supports, among other things, a video exchange program between American and Spanish schoolchildren called *21st Century Pen Pals*. He also recently served as Vice Chair on The University of North Carolina at Chapel Hill's Arts and Sciences Foundation Board of Directors.

Mr. Buchan is a 10th generation North Carolinian who grew up on his family's tobacco and cattle farms. He, his wife and their children continue family traditions and manage farms that grow over 100 varieties of heirloom tomatoes and vegetables, and raise horses. They run a farm stand, develop new varieties of tomatoes, and donate fresh produce to local charities.

Mr. Buchan received a BA in economics and Spanish from The University of North Carolina at Chapel Hill in 1985, and a MBA from Harvard Business School in 1991. He first lived in Spain almost 40 years ago. Mr. Buchan attended La Universidad de Valencia in Valencia, Spain in 1980, and La Universidad de Sevilla in Seville, Spain from 1983 to 1984. He speaks Spanish and has a working knowledge of Catalan.

Mr. Buchan's analytical and financial management skills, his leadership in business and philanthropy, and his language skills and deep appreciation for the Spanish people and culture will serve him well in his role as the U.S. Ambassador to the Kingdom of Spain and the Principality of Andorra.

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U.S. Department of State
Diplomacy in Action

U.S. Relations With Spain

Bilateral Relations Fact Sheet

BUREAU OF EUROPEAN AND EURASIAN AFFAIRS

FEBRUARY 7, 2019

U.S.-SPAIN RELATIONS

The United States established diplomatic relations with Spain in 1783. Spain severed diplomatic relations with the United States in 1898 at the start of the Spanish-American War, in which Spain lost Puerto Rico, Guam, and the Philippines to the United States. U.S.-Spanish relations were reestablished in 1899.

Spain and the United States are closely associated in many fields. Spain joined the North Atlantic Treaty Organization (NATO) in 1982. In addition to U.S. and Spanish cooperation in NATO, defense and security relations between the two countries are regulated by the Mutual Defense Assistance Agreement and the Agreement on Defense Cooperation. Under this agreement, Spain has authorized the United States to use certain facilities at Spanish military installations. In 2012 and 2015, Spain and the United States amended this agreement to permit the basing of additional U.S. personnel and equipment at bases in southern Spain. Spain is an active participant in the Coalition to Defeat ISIS, with over 500 personnel deployed in Iraq in 2019 to support the training of the Iraqi security forces.

The U.S. National Aeronautics and Space Administration and the Spanish National Institute for Aerospace Technology jointly operate the Madrid Deep Space Communications Complex in support of Earth orbital and solar system exploration missions. The Madrid Complex is one of the three largest tracking and data acquisition complexes comprising NASA's Deep Space Network.

The two countries have a cultural and educational cooperation agreement. The U.S. Embassy conducts educational, professional, and cultural exchange programs. Spain is the third most popular destination for U.S. students worldwide. The binational Fulbright program for graduate students, postdoctoral researchers, and visiting professors is among the largest in the world. The U.S.-Spain Fulbright Commission celebrated its 60th anniversary in 2018.

U.S. Assistance to Spain

The United States provides no development assistance to Spain.

Bilateral Economic Relations

Spain's accession to the European Union (EU) in 1986 required the country to open its economy to trade and investment, modernize its industrial base, improve infrastructure, and revise economic legislation to conform to EU guidelines. Spain is the fifth-largest economy in the EU and the fourth-largest economy in the Eurozone. Spain and the United States have a friendship, navigation, and commerce treaty and a bilateral taxation treaty. Many U.S. companies channel their Spanish investments and operations through third countries.

Spain's Membership in International Organizations

Spain and the United States belong to a number of the same international organizations, including the United Nations, North Atlantic Treaty Organization, Euro-Atlantic Partnership Council, Organization for Security and Cooperation in Europe, Organization for Economic Cooperation and Development, International Monetary Fund, World Bank, and World Trade Organization. Spain also is an observer to the

Organization of American States. Spain began its current term as a member of the UN Human Rights Council in 2018.

Bilateral Representation

The U.S. Ambassador to Spain is Richard Duke Buchan III; other principal embassy officials are listed in the Department's Key Officers List.

Spain maintains an embassy in the United States at 2375 Pennsylvania Avenue NW, Washington, DC 20037 (tel. 202-452-0100).

Country Report

Spain

Generated on September 17th 2019

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The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Spain

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Summary

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Politics

Economy

Briefing sheet

Editor: **Alfonso Velasco**
Forecast Closing Date: **August 9, 2019**

Political and economic outlook

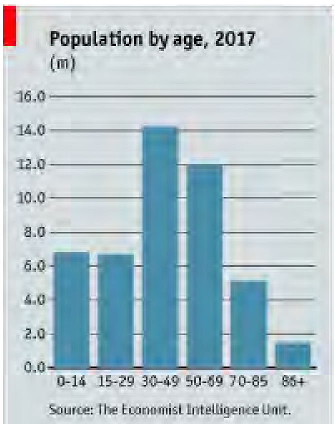
- Parliament's rejection of the 2019 government budget in February led to a national election in April. The vote produced a fragmented parliament, but The Economist Intelligence Unit expects a left-wing government to be formed before September, after lengthy talks.
- The Catalonia crisis will rumble on. The trial of 12 politicians involved in the independence process in 2017 is likely to be completed in late 2019, with a ruling possible as soon as late July.
- The rejection of the 2019 draft budget means that the 2018 budget will remain rolled over. Although many spending commitments have already been legislated by decree, new revenue measures will not be introduced. We forecast a budget deficit of 2.3% in 2019.
- Following real GDP growth of 2.6% in 2018, driven by private consumption and fixed investment, we forecast growth of 2.2% this year and average growth of 1.9% in 2020-23. Private consumption growth will continue to drive real GDP growth.
- Price pressures softened again in late 2018, owing largely to declining global energy prices, pulling inflation down to 1.7% in full-year 2018. We forecast that price growth will slow to 0.9% in 2019, alongside declining average dated Brent Blend prices.
- Since 2013 the current account has rebalanced remarkably, having previously swung from large deficits to surpluses. We expect that the current account will stay in a marginal surplus in 2019-23, but that it will narrow gradually.

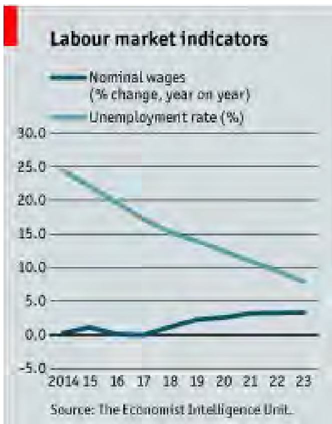
Key indicators

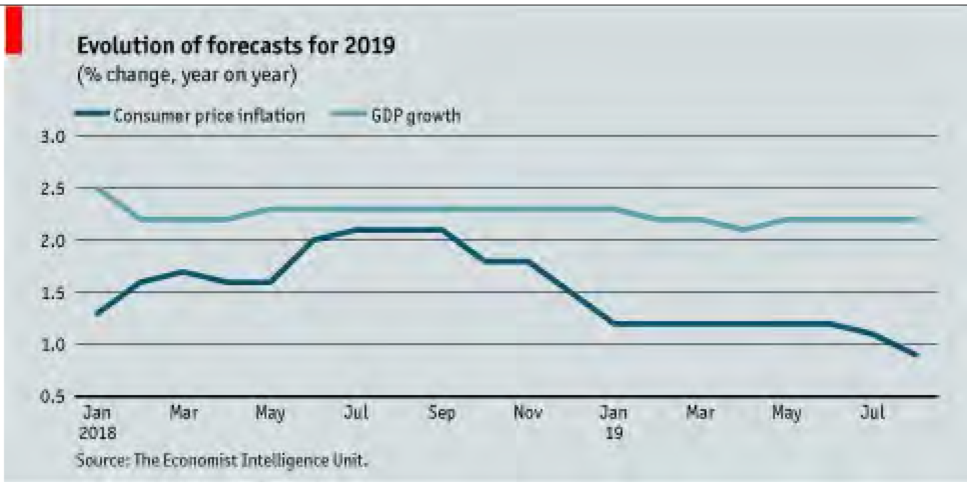
	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	2.6	2.2	1.9	2.0	2.0	1.9
Consumer price inflation (av; %)	1.7	0.9	1.3	1.9	2.1	2.2
General government balance (% of GDP)	-2.5	-2.3	-1.5	-1.3	-1.3	-1.2
Current-account balance (% of GDP)	0.9	0.6	0.5	0.4	0.3	0.3
Money market rate (av; %)	-0.3	-0.3	-0.4	-0.2	0.1	0.2
Unemployment rate (%)	15.2	14.0	12.5	11.0	9.5	7.9
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24

[a] Actual. [b] Economist Intelligence Unit forecasts.

Market opportunities







Key changes since July 22nd

- Following the failure to form a government on July 25th, the risk of a repeat election in November has risen. However, we expect the Spanish Socialist Workers' Party (PSOE) to reach an agreement with the far-left party, Unidas Podemos (UP), and form a government.
- We have changed our monetary policy call. Given our subdued outlook for US-China trade relations and recent dovish communication from the European Central Bank (ECB), we now expect the bank to present a substantial easing package at its September meeting.
- We have revised down our consumer price inflation forecasts in 2019-20 to an average of 1.1% (1.4% previously). Price pressures are lower than expected owing to a greater than anticipated excess economic capacity and lower global energy prices.
- Private consumption growth in 2019 is likely to be slower than expected. We now forecast growth of 1.7% (2% previously). The deceleration in growth reflects a sharper than expected slowdown in employment and consumer credit growth in the second quarter.

The month ahead

- **August-September—Negotiations to form a government:** Pedro Sánchez, the leader of the PSOE and incumbent prime minister, will continue in his attempts to build support among the main social groups and political parties for his nomination as prime minister.
- **September 12th—Monetary policy meeting of the ECB:** We expect the ECB to present a stimulus package that is likely to include a cut to the deposit rate, a change to its forward guidance, the announcement of another round of quantitative easing and the introduction of a deposit-tiering system.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
US-China trade war spreads to the EU	High	High	16
An unreformed judicial system continues to hamper contract enforcement	High	Moderate	12
Brexit disrupts trade and investment flows	High	Moderate	12
Dysfunction in Spain's federal structure exacerbates tensions between the government and the regions	High	Moderate	12
Inability to pass structural reforms exacerbates economic rigidities	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

Spanish politics has become increasingly unsettled in recent years. Parliamentary fragmentation, a litany of political graft scandals and rising regional nationalism in Catalonia have all posed serious challenges to governance. Against this backdrop, on April 28th Spain held its third general election since December 2015. The snap vote was triggered by the rejection of the 2019 budget proposal of the left-wing Spanish Socialist Workers' Party (PSOE) government at the hands of two Catalan pro-independence parties, Catalan European Democratic Party (PDeCAT) and the Catalan Republican Left (ERC). These two parties vetoed the budget in response to the unwillingness of Pedro Sánchez, the prime minister and leader of the PSOE, to interfere in the trial before the Spanish Supreme Court of 12 activists and former pro-independence regional politicians for their role in Catalonia's attempt to gain independence in 2017.

The PSOE won a decisive victory at the April election, raising its vote share from 22.6% in 2016 to nearly 29%. The nationalist, far-right Vox entered the national parliament for the first time, having won 10.3% of the vote. Support for the liberal Ciudadanos (Citizens) increased to about 16%, from 13% at the 2016 election. In contrast, the right-wing People's Party (PP) recorded 16.7% support, down from 33% in 2016. Mired in internal disputes, the far-left party, Unidas Podemos (UP), attracted 14.3% of the vote, compared with 21.1% in 2016.

On July 25th Mr Sánchez failed to obtain the support of a simple majority of the Congress of Deputies (the lower house of parliament) to become prime minister. He lost the vote after failing to reach an agreement with the UP on the distribution of cabinet positions. This failure reflects a political establishment accustomed to single-party governments and not to a fragmented political scene that would probably require coalitions to form a government. With the level of distrust between the two left-wing parties having increased substantially, the PSOE has returned to its initial position of a minority government supported externally by other formations. To this end, the socialists are designing a socially and economically progressive government programme with the input of major social groups. UP will be put in the difficult position of having to take back its demands for a coalition or potentially being blamed for a repeat election and the delay of progressive policies. The Economist Intelligence Unit expects that the PSOE and UP will reach some form of agreement that will enable a government to be formed before the September 23rd deadline. However, there is a high risk of a repeat election.

In a fragmented political scene, political uncertainty will remain elevated in the coming years. However, we expect the situation to stabilise (relative to 2015-18) once a government is formed. Removing a government from office is exceptionally hard in Spain (it requires proposing an alternative). The Catalan issue will persist, but a left-wing government will have a softer approach to the issue than that of the most recent PP government. There are no major corruption scandals hovering over the PSOE that could bring down a left-wing government, as happened with that of PP in 2018. The PSOE will be able to count on the support of both left- and right-wing parties on specific legislative issues.

Election watch

The European Parliament elections on May 26th coincided with 12 regional elections and polls in more than 67,000 municipalities. On aggregate, the PSOE consolidated its position as the dominant party at the national level, while also becoming the largest party within the centre-left Progressive Alliance of Socialists and Democrats (S&D) coalition at the European Parliament. Having failed to obtain the confidence of parliament to form a government in July, Mr Sánchez has until September 23rd to obtain sufficient support. If there is no government in place by September 23rd (not our central forecast), a repeat election will take place on November 10th 2019.

International relations

Spain's membership of the EU, the euro zone, NATO and the UN will continue to be the mainstays of the country's foreign relations. Since 2018 Spain has increased its presence in European and international institutions. The former minister of the economy, Luis de Guindos, obtained the vice-presidency of the European Central Bank (ECB) in June 2018; the governor of the Bank of Spain (the central bank), Pablo Hernández de Cos, secured chairmanship of the Basel Committee on Banking Supervision in March 2019; and the former secretary of state for the economy, José Manuel Campa, was made chairperson of the European Banking Authority (EBA) in June 2019.

Although illegal migrant inflows to Europe have decreased substantially since 2015, the Morocco-Spain route has become the main path of entry from North Africa via the Mediterranean, and it will remain a source of intermittent tensions between the two countries. Spain has also taken a relatively collaborative stance with the UK in the Brexit negotiations. Spain and the UK reached an agreement on the future of Gibraltar in December 2018.

Policy trends

After a protracted recession, a combination of reform and austerity—together with the depreciation of the euro—finally started to produce results in 2014. The financial sector is now in a better position, owing to reforms undertaken as part of Spain's €41.3bn bank bail-out process. Following the resolution of Banco Popular, which faced capitalisation and profitability issues and an evaporation of liquidity in mid-2017 that was linked to the deterioration of its property-loan portfolio, we believe that further episodes of instability—particularly at institutions of systemic importance—are unlikely.

A landmark labour market reform was implemented in 2012. This lowered dismissal costs, clarified and narrowed the definition of unfair dismissal, reduced the collective bargaining power of trade unions, and made it easier for companies to cut wages and working hours. Further structural reform would improve the economy’s medium-term prospects, but will probably proceed at a more gradual pace in 2019-23 compared with the reform-intense period under the absolute majority of PP in 2011-15. Under the PSOE, the Congress of Deputies (the lower house) will be dominated by the left of centre for the first time since the 2008-11 legislature. Importantly, the PSOE—together with UP, the ERC and Compromis 2019—can muster the support of 181 deputies. Under these circumstances, policymaking will tack to the left.

Indicating a taste of future developments, under the incumbent PSOE administration Spain has recently eased its stance on wages and public spending. Using powers of decree, the Sánchez government has unfrozen public pension revaluations and substantially increased the minimum wage. In January 2019 the minimum wage rose by 22%, to €900 per month, and the government also approved a 2.3% rise in public-sector salaries, effective from January 1st. Despite Mr Sánchez's decision to raise public pension spending, the social security system is already running persistent deficits. Sustainability-enhancing pension reform is therefore likely to become a priority for the next government.

Fiscal policy

Robust economic growth has provided support for the public finances in recent years, and the general government deficit has narrowed substantially from 10.5% of GDP in 2012 to 2.5% in 2018. The rejection of the 2019 draft budget means that the 2018 budget will remain in place for most of 2019. New measures on the revenue side, such as €5.6bn in tax increases in 2019 (including a minimum effective tax rate for large corporations, a wealth tax and a higher tax on diesel fuel) will only come into effect in the latter part of the year. Many of the spending commitments planned by the administration—such as a rise in state pensions of 1.6-3%, higher salaries for civil servants, a large rise in the minimum wage and greater financing for regional governments—have already been legislated by decree. Consequently, we forecast a budget deficit of 2.3% of GDP in 2019. In 2020-23 we forecast that the deficit will average 1.3% of GDP. After peaking at 100.4% in 2014, the public debt/GDP ratio is expected to decline gradually, from 97.1% in 2018 to about 89% in 2023, owing to sustained healthy nominal GDP growth and primary fiscal surpluses (excluding interest payments) beginning in 2019.

Monetary policy

We have changed our monetary policy call and now believe that an easing package will be announced in September. This is likely to include a small cut to the deposit rate, an adjustment to the ECB's forward guidance, and the announcement of a deposit-tiering system and another round of QE (QE2), which we expect to last 12 months, starting in December 2019. We previously expected only a small cut to the deposit rate in September, but at its last meeting on July 25th the ECB sent a strong signal of its readiness to intervene; in its communication it firmly underlined its intolerance towards both "realised and projected" weak inflation, and reaffirmed its commitment to symmetry in its inflation goal of "below, but close to, 2%". Crucially, the ECB announced that it had tasked "the relevant Eurosystem committees with examining options" for further stimulus in what represented the first concrete step towards a substantial stimulus.

The bank is taking pre-emptive action against rising deflation risk and a deteriorating economic outlook in the euro zone, mostly driven by global trade tensions. This means that, together with another round of targeted longer-term refinancing operations (TLTROs-III), to be started in September, funding conditions will remain ultra-loose over the medium term. Details of the size and scale of the QE2 programme have not been announced, and the ECB will have to overcome at least one of its self-imposed constraints. However, we expect it to announce monthly net asset purchases of about €50bn that should last for 12 months. The nomination of Christine Lagarde, the IMF director, for the ECB presidency is unlikely to lead to a significant change in the ECB's monetary policy strategy.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.6	1.6	1.8	2.0	1.8
EU28 GDP	2.0	1.3	1.5	1.7	1.8	1.7
World GDP	2.9	2.4	2.5	2.8	2.9	2.8
World trade	4.4	3.1	3.5	3.8	3.9	4.0
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.3	1.9	2.1	2.1	2.1
EU28 CPI	1.9	1.9	1.9	1.9	2.0	2.0
Manufactures (measured in US$)	5.1	1.0	3.0	3.8	3.2	3.3
Oil (Brent; US$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US$)	1.8	-4.7	4.0	3.5	1.4	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
€ 3-month interbank rate (av; %)	-0.3	-0.3	-0.4	-0.2	0.1	0.2
US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24
¥:€ (av)	130.47	123.88	128.33	126.49	124.32	119.13

Economic growth

Real GDP growth decelerated from 3% in 2017 to 2.6% in 2018 as private consumption growth slowed slightly and external demand softened more significantly. In 2019 growth will slow further, to 2.2%, before cooling to 1.9% on average in 2020-23 as euro area growth decelerates and the global economy cools, owing to the lasting effects of the US-China trade war and weaker growth in the US economy in 2020.

Real private consumption growth registered 2.3% in 2018, and we forecast an expansion of 1.7% this year. Consumption growth, which has been a mainstay of the ongoing economic recovery since 2014, will be supported by the first increase in real wages since 2016 (underpinned by the rise in the minimum wage and public-sector salaries at the start of the year), a decline in savings and continued growth in employment. Risks are tilted to the downside, with employment and consumer credit growth at their weakest since early 2014 in the second quarter of 2019. In 2020-23 we expect that labour market slack, and further credit and wage growth will result in average consumption growth of 1.9%.

We expect public consumption growth in 2019-23. After strong growth of 2.1% in 2018, we forecast that public consumption will slow only slightly this year as the rollover of the 2018 budget constrains expenditure in goods and services in the public administration but the rise in public-sector salaries raises the public wage bill. After a forecast 2% expansion in 2019, public consumption growth should slow to 1% on average in 2020-23.

Fixed investment growth accelerated to 5.3% in 2018, owing to strong expansion in construction, and in machinery and equipment investment. Despite this revival, total investment spending remains higher more than 20% weaker than its pre-2008 global financial crisis peak. We expect capital spending growth to slow in 2019-20, owing to greater global economic uncertainty. In 2021-23 we expect infrastructure investment to pick up, keeping fixed investment growth above that of GDP and thus causing the share of investment in GDP to rise. Construction is also likely to continue to recover in the next few years.

Export performance has been bolstered by cyclical expansion in significant trade partners like France, as well as by a weak euro since 2015, relative gains in price competitiveness, an increasing level of export orientation among firms and a booming tourism sector. Export growth slowed to 2.3% in 2018, following two consecutive years of expansion of 5.2%. Export growth should continue to decelerate modestly, to 1.9% in 2019-20, as US-led global trade tensions, a slowdown in the world's largest economy and Brexit-related uncertainty weigh on trade. We expect export growth to recover gradually thereafter, to 2.6% on average in 2021-23, on the back of improved external conditions. Imports grew by 3.5% in 2018 and are forecast to decelerate to 1.3% growth this year, in line with cooling domestic demand and unusually strong services import growth in 2018, which will produce strong base effects in 2019. We expect import growth to accelerate gradually thereafter, to 2.6% on average in 2020-23.

Economic growth

%	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
GDP	2.6	2.2	1.9	2.0	2.0	1.9
Private consumption	2.3	1.7	1.9	2.0	1.9	1.7
Government consumption	2.1	2.0	1.4	1.0	0.8	0.8
Gross fixed investment	5.3	2.8	3.2	3.2	3.3	3.5
Exports of goods & services	2.3	1.8	2.1	2.4	2.8	2.8
Imports of goods & services	3.5	1.3	1.6	2.7	3.0	3.3
Domestic demand	3.0[c]	2.0	1.7	2.1	2.0	2.0
Agriculture	2.6	2.4	1.9	3.2	1.7	3.5
Industry	2.9	2.0	1.6	3.4	3.2	3.8
Services	2.7	2.2	1.9	1.5	1.6	1.1

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Inflation

In 2018 price pressures weakened to an average of 1.7%, from 2% in 2017, largely owing to decreasing global energy prices. Inflation remained modest in January-June, and we forecast that price growth will slow further in 2019, to an average of 0.9% for the full year. Our outlook for global energy prices is subdued, with dated Brent Blend expected to decline from an average of US$71.1/barrel in 2018 to US$67.7/b in 2019. This will exert downward pressure on inflation. Demand-pull price pressures will build only gradually over the forecast period, with the headline inflation rate climbing to 2.2% in 2023.

Exchange rates

The euro has depreciated against the US dollar since peaking at almost US$1.25:€1 in February 2018, partly owing to monetary tightening in the US last year. Since the start of 2019 the euro has weakened further, mostly hovering around US$1.11:€1-US$1.13:€1, as high-frequency data and soft indicators continue to disappoint market expectations and point to a weak euro zone outlook. We expect the euro to remain broadly stable in the coming months and to average US$1.13:€1 in 2019. Next year it will appreciate to an average of US$1.18:€1 as the Federal Reserve (the US central bank) eases policy further. The euro should recover more pronouncedly from 2021 on the back of the ECB's policy tightening as growth in the region accelerates, which, together with the euro zone's large current-account surplus, should lift it to US$1.25:€1 by end-2023.

External sector

The current account has undergone substantial rebalancing in recent years, and since 2013 Spain has posted current-account surpluses. The improved performance has been the result of strong goods exports and sustained robust receipts from services. Low interest rates have reduced the cost of servicing Spain's external liabilities. In 2018 the current-account balance declined by 52% (as higher energy prices and a rising non-oil merchandise import bill eroded the recent gains), but still registered a surplus for the sixth consecutive year, of €11.3bn (0.9% of GDP). We forecast an average current-account surplus of 0.4% of GDP in 2019-23.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	2.6	2.2	1.9	2.0	2.0	1.9
Industrial production growth[c]	0.3	0.6	1.3	3.5	2.9	3.8
Unemployment rate (av; EU/OECD harmonised measure)	15.3	14.0	12.5	11.0	9.5	7.9
Consumer price inflation (av; EU harmonised measure)	1.7	0.9	1.3	1.9	2.1	2.2
3-month interbank rate	-0.3	-0.3	-0.4	-0.2	0.1	0.2
General government balance (% of GDP)	-2.5	-2.3	-1.5	-1.3	-1.3	-1.2
Exports of goods fob (US$ bn)	338.5	328.5	347.0	366.1	390.3	409.8
Imports of goods fob (US$ bn)	375.4	369.1	387.0	413.6	446.9	474.6
Current-account balance (US$ bn)	12.8	8.3	7.7	5.9	5.7	4.7
Current-account balance (% of GDP)	0.9	0.6	0.5	0.4	0.3	0.3
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24
Exchange rate US$:€ (end-period)	1.15	1.15	1.20	1.23	1.25	1.25
Exchange rate ¥100:€ (av)	1.30	1.24	1.28	1.26	1.24	1.19
Exchange rate €:£ (av)	1.13	1.15	1.12	1.13	1.14	1.15

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Working-day adjusted.

Quarterly forecasts

Quarterly forecasts

	2018				2019				2020			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.6	0.6	0.5	0.6	0.7	0.5	0.5	0.5	0.5	0.4	0.5	0.4
% change, year on year	2.9	2.6	2.5	2.3	2.4	2.3	2.2	2.1	1.9	1.9	1.9	1.9
Private consumption												
% change, quarter on quarter	0.9	0.1	0.6	0.4	0.4	0.3	1.1	-0.1	0.6	0.5	0.6	0.5
% change, year on year	3.0	2.3	1.9	1.9	1.5	1.7	2.2	1.6	1.8	2.1	1.5	2.2
Government consumption												
% change, quarter on quarter	0.6	0.3	0.8	0.4	0.4	0.2	1.2	0.0	0.3	0.2	0.3	0.3
% change, year on year	2.2	2.0	2.2	2.2	2.0	1.9	2.3	1.9	1.8	1.8	0.9	1.1
Gross fixed investment												
% change, quarter on quarter	1.2	3.2	0.2	-0.2	1.4	-0.2	1.2	0.5	0.9	0.8	0.9	0.8
% change, year on year	3.9	7.5	5.2	4.4	4.7	1.2	2.3	3.1	2.5	3.5	3.2	3.5
Exports of goods & services												
% change, quarter on quarter	1.0	0.1	-0.8	0.7	0.0	1.8	0.4	0.1	0.5	0.5	0.6	0.5
% change, year on year	3.8	2.6	1.7	1.0	0.0	1.7	3.0	2.4	3.0	1.6	1.7	2.1
Imports of goods & services												
% change, quarter on quarter	1.8	0.8	-0.9	0.0	-0.3	1.0	2.7	-0.9	0.3	0.3	0.3	0.3
% change, year on year	4.8	5.1	2.3	1.7	-0.5	-0.3	3.3	2.4	3.1	2.4	0.0	1.2
Domestic demand												
% change, quarter on quarter	0.9	0.9	0.6	0.3	0.6	0.2	1.0	0.1	0.2	0.5	0.6	0.6
% change, year on year	3.2	3.5	2.8	2.6	2.3	1.6	2.1	1.9	1.5	1.9	1.5	1.9
Consumer prices												
% change, quarter on quarter	0.6	0.6	0.5	0.0	0.1	0.4	0.2	0.3	0.3	0.4	0.4	0.3
% change, year on year	0.9	2.0	2.3	1.8	1.2	1.0	0.6	0.9	1.2	1.2	1.4	1.5
Producer prices												
% change, quarter on quarter	0.9	1.0	1.6	-0.5	-0.1	0.0	0.2	0.2	0.3	0.2	0.4	0.2
% change, year on year	0.7	3.1	5.1	3.0	2.0	1.0	-0.4	0.3	0.6	0.9	1.1	1.1
Exchange rate €:US$												
Average	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8
End-period	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Interest rates (%; av)												
Money market rate	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Long-term bond yield	1.4	1.3	1.4	1.5	1.3	0.8	0.3	0.4	0.6	0.8	1.1	1.1

Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]
GDP							
Nominal GDP (US$ bn)	1,379.1	1,199.7	1,238.0	1,317.1	1,427.5	1,402.4	1,518.5
Nominal GDP (€ bn)	1,038	1,081	1,119	1,166	1,208	1,244	1,287
Real GDP growth (%)	1.4	3.6	3.2	3.0	2.6	2.2	1.9
Expenditure on GDP (% real change)							
Private consumption	1.5	3.0	2.9	2.5	2.3	1.7	1.9
Government consumption	-0.3	2.0	1.0	1.9	2.1	2.0	1.4
Gross fixed investment	4.7	6.7	2.9	4.8	5.3	2.8	3.2
Exports of goods & services	4.3	4.2	5.2	5.2	2.3	1.8	2.1
Imports of goods & services	6.6	5.4	2.9	5.6	3.5	1.3	1.6
Origin of GDP (% real change)							
Agriculture	-1.2	3.6	8.2	-0.9	2.6	2.4	1.9
Industry	0.9	3.4	5.0	4.9	2.9	2.0	1.6
Services	1.3	3.0	2.1	2.5	2.7	2.2	1.9
Population and income							
Population (m)	46.8	46.7	46.6[c]	46.6[c]	46.7[c]	46.7	46.8
GDP per head (US$ at PPP)	33,494	34,856	36,598[c]	38,994[c]	39,939[c]	41,577	43,136
Recorded unemployment (av; %)	24.4	22.1	19.6	17.2	15.2	14.0	12.5
Fiscal indicators (% of GDP)							
General government budget revenue	38.9	38.5	37.7	37.9	38.9	38.6	38.8
General government budget expenditure	44.8	43.7	42.2	41.0	41.3	40.9	40.3
General government budget balance	-6.0	-5.3	-4.5	-3.1	-2.5	-2.3	-1.5
Public debt	100.4	99.3	99.0	98.1	97.1	96.6	94.9
Prices and financial indicators							
Exchange rate US$:€ (end-period)	1.21	1.09	1.05	1.20	1.15	1.15	1.20
Exchange rate ¥:€ (end-period)	145.51	130.94	123.10	135.15	125.61	125.66	128.70
Consumer prices (av; % change; EU harmonised measure)	-0.2	-0.6	-0.3	2.0	1.7	0.9	1.3
Producer prices (av; %)	-1.4	-2.0	-3.2	4.4	3.0	0.7	0.9
Lending interest rate (av; %)	6.1	4.5	4.2	2.0	1.9	1.8	1.8
Current account (US$ bn)							
Trade balance	-29.5	-23.9	-16.8	-24.7	-36.9	-40.6	-40.0
Goods: exports fob	317.8	277.6	284.1	313.5	338.5	328.5	347.0
Goods: imports fob	-347.3	-301.6	-301.0	-338.3	-375.4	-369.1	-387.0
Services balance	63.6	52.7	56.8	63.1	64.5	59.9	66.6
Primary income balance	-5.1	-3.3	0.9	-1.1	-0.6	2.9	-4.0
Secondary income balance	-14.9	-11.7	-13.0	-12.2	-14.1	-13.8	-14.9
Current-account balance	14.1	13.8	27.9	25.0	12.8	8.3	7.7

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.
Sources: OECD, Main Economic Indicators; Banco de España, Boletín Estadístico; Instituto Nacional de Estadística (INE); IMF, International Financial Statistics.

Quarterly data

	2017		2018				2019	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Central government finance (€ m)[a]								
Revenue	31,953	45,679	28,440	27,299	38,669	47,631	26,600	27,001
Expenditure	39,596	41,185	35,938	32,118	41,743	44,088	35,776	34,598
Balance	-7,643	4,494	-7,498	-4,819	-3,074	3,543	-9,176	-7,597
Output								
GDP at chained 2010 prices (€ bn)[b]	286.0	288.1	289.9	291.6	293.2	294.8	296.7	298.1
GDP at chained 2010 prices, trend cycle (% change, year on year)	2.9	3.1	2.9	2.6	2.5	2.3	2.4	2.3
Industrial production index (2010=100)								
Total	104.9	107.8	106.2	105.3	105.4	104.8	106.1	n/a
Investment goods	96.7	111.2	109.9	119.3	99.6	112.4	114.6	n/a
Consumer goods	99.4	102.9	102.3	103.7	98.6	103.4	103.6	n/a
Employment, wages and prices								
Total employment ('000)	18,906	18,998	19,065	19,292	19,386	19,570	19,700	19,709
EU harmonised unemployment rate (seasonally adjusted; % of the labour force)	16.8	16.6	16.2	15.4	14.9	14.5	14.2	14.1
Hourly earnings per worker (% change, year on year)	-0.4	0.9	3.9	-2.1	2.5	0.6	-0.3	n/a
EU harmonised index of consumer prices (% change, year on year)	1.9	1.6	0.9	2.0	2.3	1.8	1.2	1.0
Producer prices (2010=100)								
Investment goods	101.5	101.6	102.1	102.3	102.4	102.5	103.0	103.3
Consumer goods	102.4	102.1	102.3	102.0	101.8	101.5	101.5	102.0
Financial indicators								
Exchange rate US$:€ (av)	1.174	1.178	1.229	1.192	1.163	1.141	1.136	1.124
Exchange rate US$:€ (end-period)	1.181	1.199	1.232	1.166	1.158	1.145	1.124	1.138
Long-term bond yield (%)	1.5	1.5	1.4	1.3	1.4	1.5	1.3	0.8
Stock of domestic credit (% change, year on year)	-2.1	-0.9	-2.2	-0.9	-2.5	-3.1	-1.9	n/a
Stock of M1 (% change, year on year)	16.4	13.6	11.4	12.0	10.4	9.3	10.9	9.1
IBEX-35 stockmarket index (end-period; December 29 1989=3,000)	10,382	10,044	9,600	9,623	9,389	8,540	9,240	9,199
Sectoral trends								
Manufacturing index (seasonally adjusted; 2010=100)	105.2	106.9	108.3	106.6	106.3	107.4	107.6	n/a
Passenger-car production ('000)	438.8	563.5	607.4	684.8	413.4	510.0	587.3	617.2
Residential construction permits issued ('000)	19.8	20.1	23.5	26.5	25.4	25.4	27.9	n/a
Housing prices (seasonally adjusted; 2005=100)	111.8	113.9	115.6	117.5	119.8	121.5	123.4	n/a
Industrial orders (seasonally adjusted; 2010=100)	109.9	112.4	112.1	112.9	113.4	123.2	114.6	n/a
Foreign trade (€ bn)								
Exports fob	64.0	70.8	71.0	73.9	67.2	72.9	71.0	n/a
Imports cif	72.1	77.6	78.0	81.5	76.8	82.5	80.5	n/a
Trade balance	-8.2	-6.7	-6.9	-7.7	-9.6	-9.7	-9.5	n/a
Foreign payments (US$ m)								
Merchandise trade balance	-8,524	-5,837	-7,737	-8,231	-11,612	-9322	-10,103	n/a
Services balance	22,415	14,467	11,089	18,301	21,135	13,961	9,995	n/a
Primary income balance	-2,162	5,482	-1,401	-3,726	-1,990	6,479	-719	n/a
Net transfer payments	-3,914	-1,855	-4,376	-2,038	-4,068	-3,669	-5,472	n/a
Current-account balance	7,815	12,257	-2,425	4,306	3,465	7,449	-6,299	n/a

[a] Excluding net lending. [b] Seasonally and working-day adjusted.

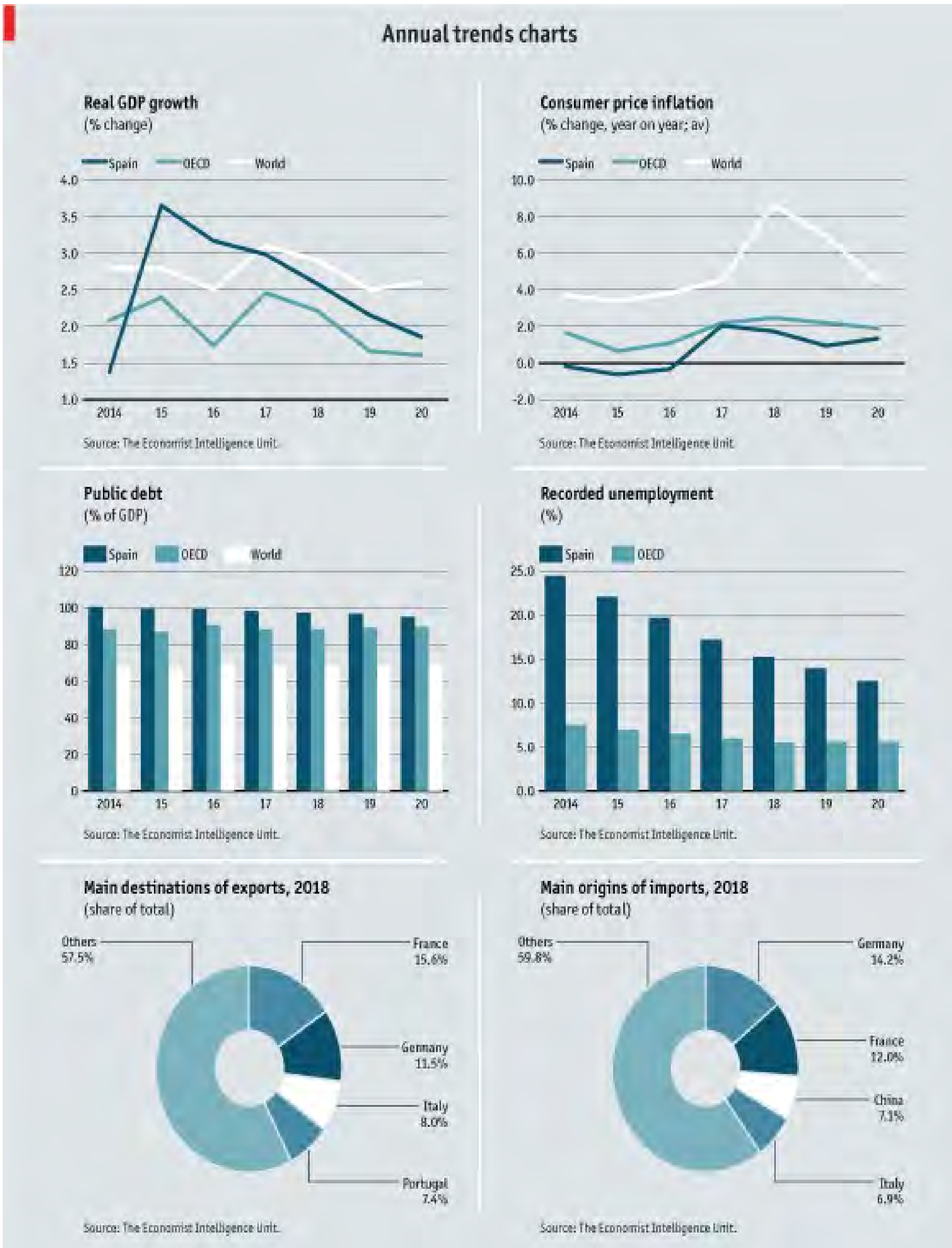
Sources: OECD, Main Economic Indicators; Banco de España, Boletín Estadístico; Instituto Nacional de Estadística (INE); IMF, International Financial Statistics.

Monthly data

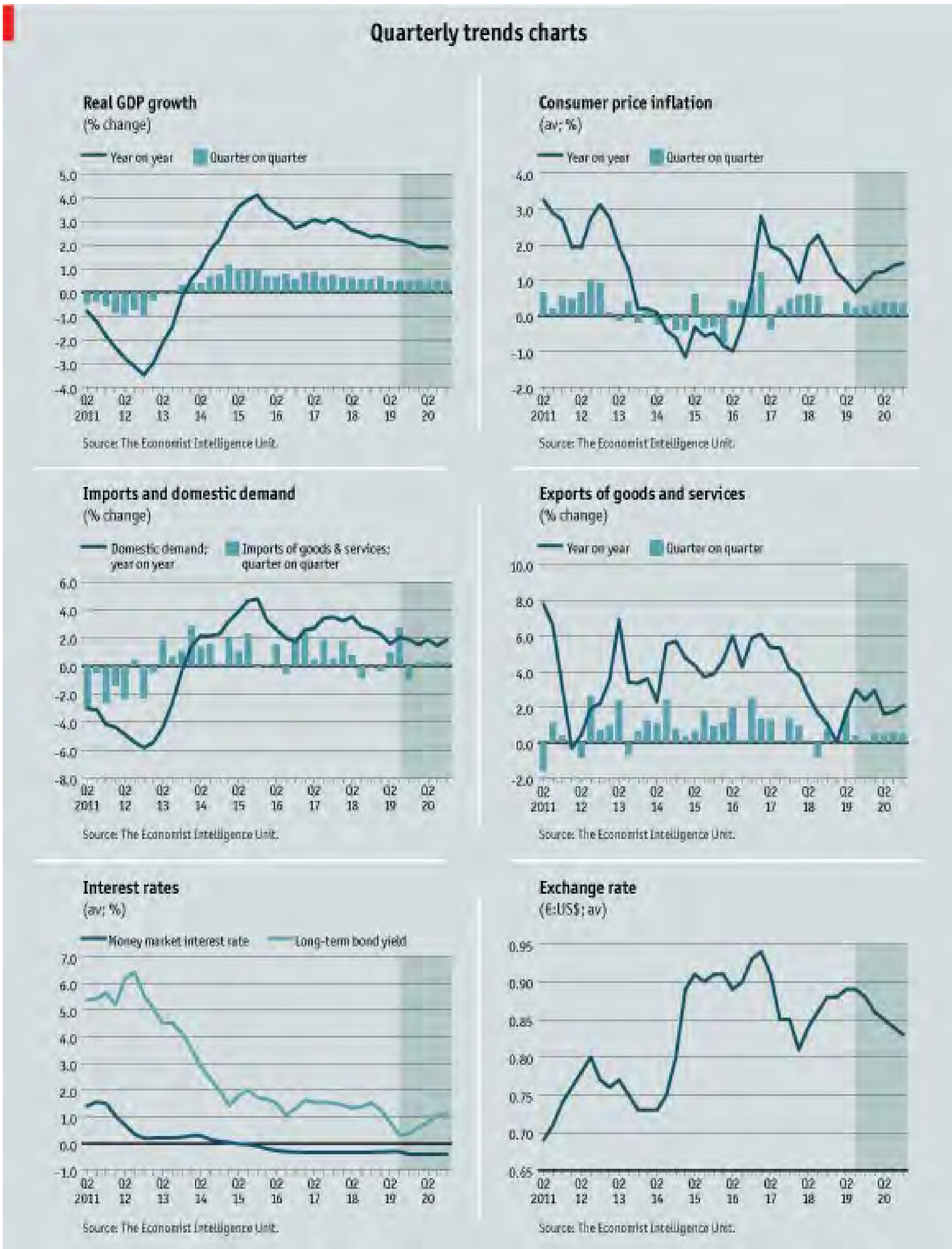
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate US$:€ (av)												
2017	1.06	1.06	1.07	1.07	1.11	1.12	1.15	1.18	1.19	1.18	1.17	1.18
2018	1.22	1.23	1.23	1.23	1.18	1.17	1.17	1.15	1.17	1.15	1.14	1.14
2019	1.14	1.14	1.13	1.12	1.12	1.13	1.12	n/a	n/a	n/a	n/a	n/a
Exchange rate US$:€ (end-period)												
2017	1.08	1.06	1.07	1.09	1.12	1.14	1.17	1.18	1.18	1.16	1.18	1.20
2018	1.25	1.22	1.23	1.21	1.17	1.17	1.17	1.17	1.16	1.13	1.14	1.15
2019	1.15	1.14	1.12	1.12	1.12	1.14	1.12	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2005=100; CPI basis)												
2017	95.1	94.2	94.1	93.9	94.7	94.9	95.8	96.6	96.6	96.6	96.7	96.7
2018	97.2	97.4	97.5	97.3	97.1	97.1	97.6	97.9	98.7	97.9	97.0	96.7
2019	96.4	96.1	96.1	95.8	96.1	96.2	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2017	2.1	2.6	0.7	0.3	4.5	4.2	3.3	2.5	3.6	3.7	4.3	6.5
2018	0.1	2.6	4.9	1.7	0.9	0.3	0.9	0.9	-0.3	0.7	-3.0	-5.8
2019	2.8	0.0	-2.9	1.8	1.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Residential construction permits issued ('000)												
2017	6.2	6.5	7.2	4.9	7.7	8.3	8.3	4.8	6.7	7.4	6.6	6.1
2018	6.7	8.3	8.5	7.1	9.7	9.6	12.2	6.0	7.3	8.6	9.3	7.6
2019	9.3	9.2	9.4	9.7	9.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Retail sales (volume; % change, year on year)												
2017	-0.5	0.4	1.3	1.4	2.5	1.9	0.3	0.9	1.7	-1.7	1.7	0.3
2018	2.3	1.9	1.4	0.4	-0.3	0.0	-0.5	0.3	-1.2	3.0	1.0	0.3
2019	1.0	1.6	1.4	1.1	3.0	2.2	n/a	n/a	n/a	n/a	n/a	n/a
Harmonised unemployment rate, seasonally adjusted (%)												
2017	18.4	18.2	18.0	17.6	17.3	17.0	16.9	16.8	16.7	16.6	16.6	16.5
2018	16.4	16.3	16.0	15.6	15.4	15.1	15.0	15.0	14.8	14.7	14.5	14.4
2019	14.3	14.2	14.2	14.2	14.1	14.0	n/a	n/a	n/a	n/a	n/a	n/a
IBEX-35 stockmarket index (end-period; December 29 1989=3,000)												
2017	9,315	9,556	10,463	10,716	10,880	10,445	10,502	10,300	10,382	10,524	10,211	10,044
2018	10,452	9,840	9,600	9,981	9,466	9,623	9,871	9,399	9,389	8,894	9,077	8,540
2019	9,057	9,278	9,240	9,571	9,004	9,199	8,971	n/a	n/a	n/a	n/a	n/a
EU harmonised consumer prices (av; % change, year on year)												
2017	2.9	3.0	2.5	2.3	2.0	1.6	1.7	1.9	1.9	1.7	1.8	1.2
2018	0.7	1.2	1.0	1.4	2.1	2.3	2.3	2.2	2.3	2.3	1.8	1.2
2019	1.0	1.0	1.6	1.3	1.0	0.6	0.7	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2017	7.5	7.4	6.0	6.0	5.3	3.1	3.1	3.4	3.7	2.7	3.0	1.7
2018	-0.1	1.2	1.1	2.0	3.1	4.2	4.9	5.1	5.3	4.5	2.9	1.6
2019	1.7	1.7	2.6	2.3	1.2	-0.6	n/a	n/a	n/a	n/a	n/a	n/a
Goods exports fob (€ bn)												
2017	22.1	22.2	26.6	21.2	24.9	24.2	22.2	18.8	23.0	24.5	25.1	21.2
2018	22.8	22.6	25.6	23.9	25.3	24.7	24.4	20.7	22.2	26.4	25.3	21.2
2019	22.5	23.0	25.5	24.8	26.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (€ bn)												
2017	25.0	24.7	28.1	22.4	27.0	25.5	24.5	22.1	25.6	27.2	27.1	23.2
2018	26.8	24.8	26.4	26.9	27.5	27.2	27.6	23.8	25.5	30.2	27.8	24.4
2019	27.0	25.6	27.8	26.4	28.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (€ bn)												
2017	-2.9	-2.5	-1.5	-1.2	-2.0	-1.3	-2.3	-3.2	-2.6	-2.7	-2.0	-2.0
2018	-3.9	-2.2	-0.8	-3.1	-2.2	-2.4	-3.2	-3.1	-3.3	-3.8	-2.6	-3.2
2019	-4.5	-2.6	-2.4	-1.6	-2.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

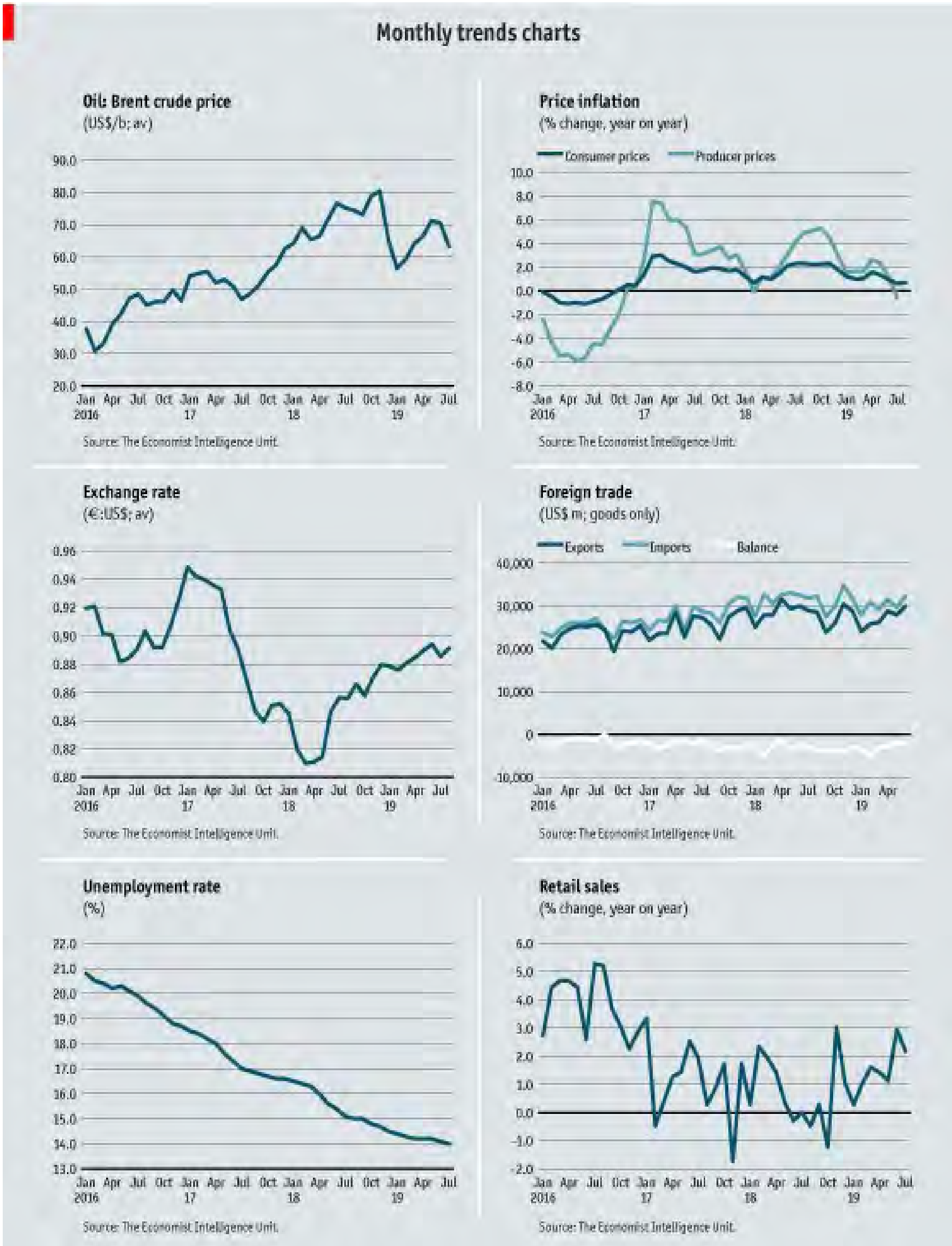
Annual trends charts



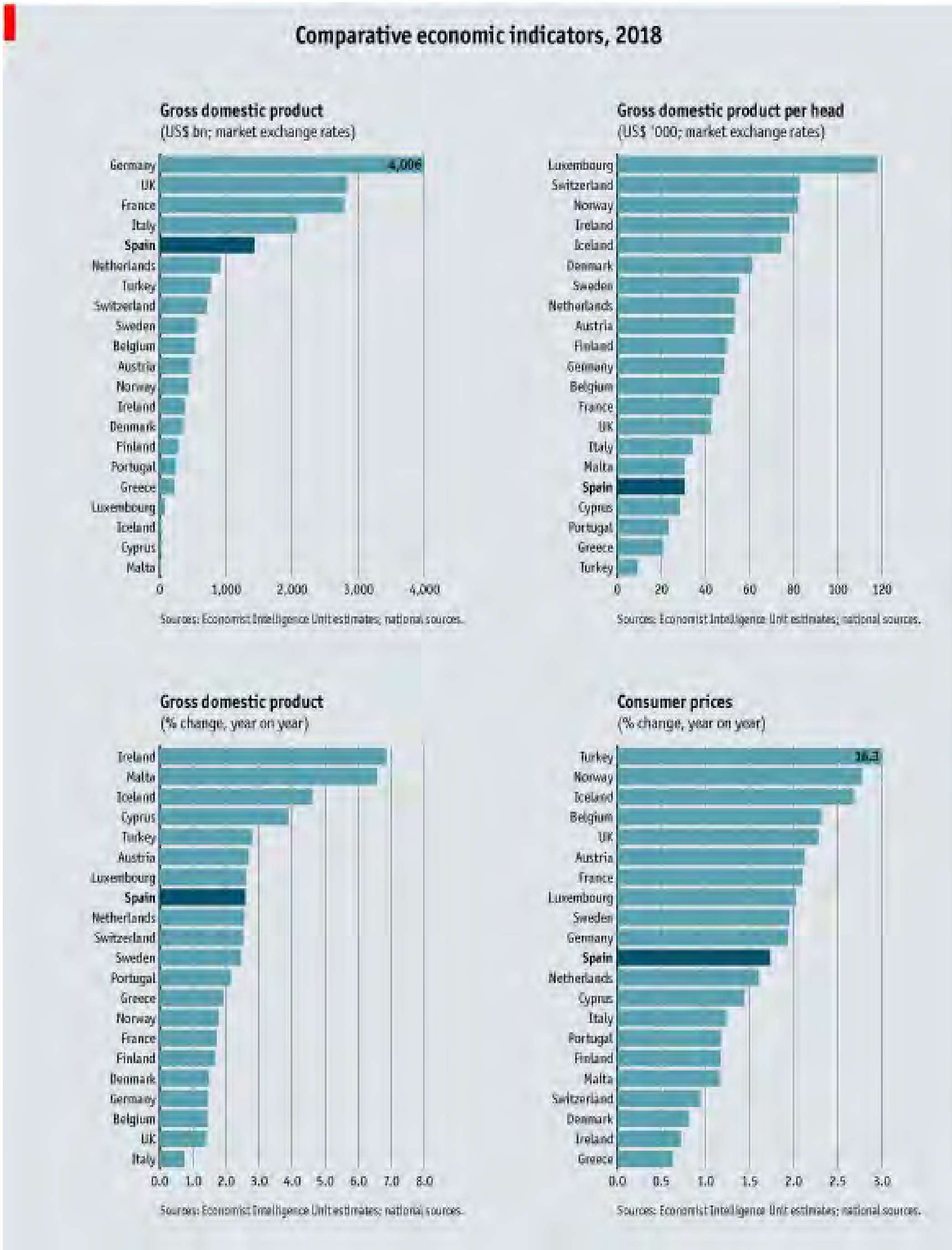
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Total area

504,880 sq km; including 30% arable, 8% permanent crops, 13% pasture, 33% forest

Population

46.55m (July 2017 national provisional estimate)

Main towns

Population in ’000 (January 2016 INE estimate)

Madrid (capital): 3,166

Barcelona: 1,609

Valencia: 790

Seville: 691

Climate

Mediterranean in east and south; temperate in north-west

Weather in Madrid (altitude 660 metres)

Hottest month, July, 16-32°C (average daily minimum and maximum); coldest month, January, 0-8°C; driest month, July, 11 mm average rainfall; wettest month, October, 53 mm average rainfall

Languages

Spanish (Castilian), Catalan, Galician, Basque

Weights and measures

Metric system

Currency

Euro (€) = 100 cents

Fiscal year

Calendar year

Time

One hour ahead of GMT

Public holidays

Nationwide public holidays in 2019 are January 1st (New Year's Day), January 6th (Epiphany), April 19th (Good Friday), May 1st (Labour Day), August 15th (Assumption of Mary), October 12th (Fiesta Nacional), November 1st (All Saints' Day), December 6th (Constitution Day), December 8th (Immaculate Conception), December 25th (Christmas)

Regions and municipalities also set a number of other labour holidays in their territories

Political structure

Official name

Kingdom of Spain

Form of state

Constitutional monarchy

Legal system

Based on 1978 constitution

National legislature

Bicameral Cortes (parliament): the Senate (the upper house) has 266 members, 208 directly elected and 58 appointed as regional representatives, but with little influence; the Congress of Deputies (the lower house) has 350 members, elected from closed party lists in individual constituencies

Electoral system

Universal suffrage over the age of 18

National elections

Last general election held on April 28th 2019; next general election scheduled for 2023

Head of state

King Felipe VI

State legislatures

17 autonomous community (regional) parliaments

National government

Council of Ministers headed by the president (prime minister), who is appointed by the king but must win an investiture vote in parliament. Pedro Sánchez, the leader of the Spanish Socialist Workers' Party (PSOE), is the current president of a minority government

Main political parties

National parliament: People's Party (PP); Spanish Socialist Workers' Party (PSOE); Unidas Podemos (UP); Ciudadanos (Citizens); Vox; the regional alliance of the Canarian Coalition and the Canarian Nationalist Party (CCa-PNC); Basque Nationalist Party (PNV); Catalan Republican Left (ERC); Basque Country Unite (EH Bildu)

Regional parties: Catalonia—Junts per Catalunya (JuntsxCat, Together for Catalonia), composed of Catalan European Democratic Party (PDeCAT) and independents, the Catalan Republican Left (ERC); Popular Unity Candidates (CUP); DyL; Basque Nationalist Party—PNV; Bildu; Galicia—Galician Nationalist Bloc (BNG); Galician Socialist Party (PSdeG-PSOE); all of the main national parties also have regional affiliates in Catalonia, the Basque Country and Galicia

The Council of Ministers

Prime minister: Pedro Sánchez

Deputy prime minister; minister of parliamentary relations & equality: Carmen Calvo

Key ministers

Agriculture, fisheries & food: Luis Planas

Defence: Margarita Robles

Ecological transition: Teresa Ribera

Economy & industry: Nadia Calviño

Finance & public administration: María Jesús Montero

Foreign affairs, EU & co-operation: Josep Borrell

Health, consumption & social welfare: Maria Luisa Carcedo Roces

Interior: Fernando Grande-Marlaska

Justice: Dolores Delgado

Labour, migration & social security: Magdalena Valerio

Central bank governor

Pablo Hernández de Cos

Recent analysis

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The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

EU nominates Kristalina Georgieva to head IMF

August 13, 2019: International relations

Event

On August 2nd 2019 the EU finance ministers nominated Kristalina Georgieva, a Bulgarian economist, to replace Christine Lagarde as managing director of the IMF.

Analysis

At the final round of voting Ms Georgieva won the support of 56% of EU member states, representing 57% of the EU population; her competitor, Jeroen Dijsselbloem (Netherlands), won 44 and 43% respectively and conceded defeat. Several other candidates—including Nadia Calvino, the Spanish economy minister; Mario Centeno, the Portuguese president of the Eurogroup of euro zone finance ministers; and Olli Rehn, the governor of the Bank of Finland (the central bank)—withdrew from the competition after a first round of voting.

According to media reports, Ms Georgieva was supported by France and many south and east European countries, whereas Mr Dijsselbloem was backed by Germany and the Nordic countries. Mr Dijsselbloem, the former head of the Eurogroup, is unpopular in southern Europe owing to his insistence on fiscal austerity during the Greek financial crisis and the Dutch reluctance to creating a common euro zone budget—a policy advocated by France. Moreover, Ms Georgieva comes from eastern Europe, a region that did not get any of the EU top jobs in July 2019.

Ms Georgieva is a highly qualified policymaker who has been chief executive officer of the World Bank since 2017 and served as interim president of the World Bank Group in 2019. In 2014-16 she was vice-president of the European Commission for Budget and Human Resources, and also commissioner for International Co-operation, Humanitarian Aid and Crisis Response in 2010-14.

The chances of Ms Georgieva being appointed to the IMF top job are high, as, by tradition, the Fund is headed by a European, whereas the World Bank is headed by an American. Despite losing the vote, the Netherlands and Germany committed to supporting the EU's common candidate. Some non-EU countries also expressed support for Ms Georgieva—most notably Russia. Ms Georgieva may also be more acceptable to emerging-market countries that have complained about western Europe's "monopoly" on IMF leadership. However, the US decision will be crucial, as it holds veto power in the IMF. The UK abstained from the EU's selection process and may propose its own candidate.

Impact on the forecast

Ms Georgieva's nomination can be viewed as a win for Emmanuel Macron, the French president and one of Ms Georgieva's strongest supporters, who also secured the presidency of the European Central Bank for a French candidate, Ms Lagarde.

Size of Madrid government increases

August 30, 2019: Political stability

Event

On August 27th the recently formed coalition government of Madrid made official a significant restructuring of the executive that resulted in 22 senior positions being created. The increase in the number of senior positions is a response to the need to accommodate politicians from the liberal Ciudadanos (Citizens) and the right-wing People's Party (PP) in government. The far-right Vox provides external support to the coalition.

Analysis

The increase in the size of the administration is most visible at the counsellor level (the regional equivalent of the national ministries). While the previous regional administration had nine counsellors the current one has 13; seven of these are under control of PP and six of Ciudadanos. The additional positions in the regional executive are due to the responsibilites of several councils being split. For example the economic council has been split from the treasury council, with the first filled by an independent candidate selected by Ciudadanos and the second by a member of PP.

A coalition government with a broadly equitable distribution of roles was a necessity following the fragmented regional assembly formed in the aftermath of the May election. In addition to the six councils, Ciudadanos also holds the regional vice-presidency. In a sign of the significant fragmentation of the regional parliament, agreement between Ciudadanos and PP on the government's structure and programme did not guarantee the formation of a centre-right executive. It was not until the far-right Vox stepped back from most of its demands that the PP-Ciudadanos coalition became feasible.

Vox had initially demanded policy concessions (some controversial) to back a PP-Ciudadanos coalition and that Ciudadanos negotiate those terms in three-way talks. Ciudadanos, under pressure from European allies such as the party of France's president, Emmanuel Macron, to distance itself from Vox, rejected this approach. A coalition between PP and Ciudadanos only became feasible after Vox accepted the exclusion of its most controversial policy requests and Ciudadanos made a public statement saying some of Vox's requests were not incompatible with the PP-Ciudadanos pact.

Impact on the forecast

The close to three-month struggle in forming a government is a forewarning of the difficulties that lie ahead of the regional administration. Vox has already said that it will not support all of the measures included in the pact between Ciudadanos and PP. Moreover, developments in several ongoing corruption trials involving the Madrid PP are likely to add to the heat between the three right-of-centre parties.

Economy

Forecast updates

Euro zone bonds rally in August

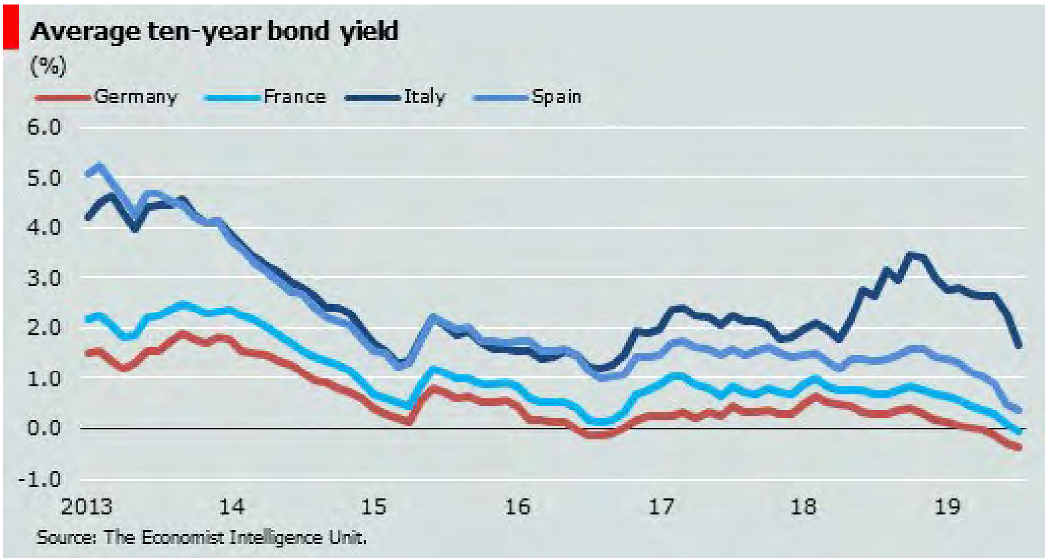
August 22, 2019: Policy trends

Event

On August 21st Germany sold a 30-year bond with a 0% coupon rate and a –0.11% bond yield. This followed a ten-year bond auction on July 10th with a 0% coupon rate and a yield of –0.26%—the lowest ever recorded for such a maturity. Ten-year bond yields have been consistently declining in Germany, leaving the whole yield curve in negative territory. Yields in other euro zone economies have also reached record lows over the past week.

Analysis

Euro zone bond yields have decreased substantially since the beginning of 2019, across both risky and safe economies. The decline was first triggered by high-frequency indicators reflecting weaker economic momentum in late 2018 and became more pronounced throughout 2019.



Although domestic factors play a role in bond market dynamics, the generally downward trend in yields this year has been mostly driven by the increasingly dovish stance of the European Central Bank (ECB). Having adjusted its forward guidance in March, signalling that rates would stay unchanged for longer, the ECB hinted at further stimulus in June. The speech given in late June by Mario Draghi, the bank's president, at the ECB's annual forum in Portugal contributed to the biggest monthly decline in yields since February 2016 in most euro zone economies.

Expectations of subdued growth and inflation in the euro zone have also played a role, especially given weak second-quarter real GDP outturns. Rising geopolitical uncertainty on the back of US-China trade tensions has also forced investors to look for safer investment options and has increased demand for bonds globally, lifting the total volume of negative-yield bonds to an all-time record of US$16trn.

Negative yields across most euro zone economies are likely to persist until the end of the year. We expect the ECB to announce a substantial easing package at its next meeting in September. Another cut to the deposit rate, currently at –0.4%, will continue to fuel demand for bonds in a series of countries as many nations' bonds still represent a more attractive alternative for banks looking to park their money in a safe and liquid asset. Quantitative easing (QE) is a bond-purchasing programme, and expectations of its restart—likely to start in December—and the programme itself (once it beings) will drive demand for bonds higher, not least as global trade tensions persist.

Impact on the forecast

In our next forecasting round we will revise down our ten-year bond yield for Germany in 2019, currently at about –0.2%.

Economic sentiment indicator declines further in July

August 27, 2019: Economic growth

Event

In July the economic sentiment indicator for the euro area, published by European Commission, weakened further, to 102.7 points. The series has recorded monthly declines in 11 of the 12 past months and is now at its lowest level since March 2016. Other EU economies, such as Denmark and Sweden, are also registering a consistent downward trend in confidence.

Analysis

The narrative is the same across the bloc, with industrial confidence indicators registering a continued, and sharp, decline since early 2018—for many euro zone and EU economies, manufacturing confidence indicators are in negative territory, although they are still above the lows registered in late 2012. An increasing number of manufacturers recorded pessimistic production expectations, and the volume of order books has also declined substantially since the start of the year. Industrial production in the euro zone has contracted in April-June, by 0.8% quarter on quarter, pulled down by a sharp 1.8% decline in Germany in the same time period. The sharp July decline in manufacturing confidence—especially for the production trend observed in recent months—suggests that activity has remained subdued so far. European industries have been affected by the uncertainty stemming from rising trade tensions and a slowdown in China's growth.

In contrast, confidence indicators for services, consumer and construction have broadly stabilised since the start of 2019, after declining only gradually from their early 2018 highs. Domestic demand across a series of euro zone economies has proved resilient, with employment gains relatively firm in the first half of the year. Consumers have benefited from tight labour markets modestly pushing up wage growth and from weak inflation—particularly low energy prices. Financing conditions remain ultra-loose, and continue to support buoyant housing markets and credit growth, although the bank lending survey conducted by the European Central Bank (ECB) pointed to a tightening of credit standards both for households and consumers in the second quarter, despite an increase in net demand. Lower hiring intentions and persistent weakness in manufacturing worsen prospects for the private consumption outlook, but consumers remain increasingly positive about their financial situation in the next 12 months—suggesting that household spending will remain relatively resilient.

Impact on the forecast

Following real GDP growth of 0.2% quarter on quarter in April-June, we expect growth to broadly stabilise at about 0.3% until the end of the year. We maintain our forecast for 1.1% growth in the euro area in 2019, but risks remain to the downside.

Trade deficit shrinks in May

August 30, 2019: External sector

Event

Export growth accelerated for the second consecutive month in May, by 5.5% year on year, expanding at the fastest rate in seven months, according to data from the Ministry of Industry, Trade and Tourism. Imports also grew, but less buoyantly. The trade deficit declined by 2% year on year, to €2.2bn (US$2.4bn).

Analysis

In January-May the value of exports reached €122.5bn, compared with imports of €135.6bn, generating a shortfall of €13.2bn, only marginally higher than the deficit in the same period of 2018 (up by 8.6% year on year). The mild drop in imported fuel prices has helped contain the size of the deficit, which stood at the equivalent of 2.6% of GDP in the five-month period, not dissimilar to the annual deficit ratios recorded in 2017 and 2018, of 2.5% and 3% of GDP respectively.

In volume terms, after stripping out the impact of a 1.4% increase in prices, exports increased by just 0.5% year on year in the first five months. This is well below the growth rate of real GDP, reflecting the ongoing, mild regression in the relative importance of goods exports in the economy. Import prices increased by a stronger 2.1%, reducing real import growth to 0.4%.

By sector, the value of consumer goods exports declined by 0.6% in the first five months of the year, compared with a healthy increase of 6.4% for capital goods and 3% for intermediates. There was a noteworthy decline of 5.9% in exports from the key automotive sector, which alone accounts for 15.8% of the value of all Spanish exports A breakdown of imports shows growth of 4% for consumer goods, 7.6% for capital goods, and just 1.2% for intermediates (1.9% excluding energy products).

By destination, export growth to non-EU markets reached 2.8% in January-May (accounting for 33.6% of the total value of exports), compared with growth of 1.1% to the euro area (51.9% of the total) and 2.7% to the rest of the EU (14.5%). Exports rose by 11.2% to the US, 5.9% to African markets and 2% to China, but were down by 1.2% to both Latin America and Japan, and by a massive 26.2% to Turkey. Spain ran a trade surplus of €8.9bn with the rest of the EU in the first five months of the year, 12.3% more than in the previous year.

Impact on the forecast

We will consider revising our current trade deficit forecast of €3.6bn in 2019 slightly downwards.

Retail sales growth increases in May

August 30, 2019: Economic growth

Event

Retail sales volumes jumped by 0.7% month on month in May, according to seasonally and calendar-adjusted data from the National Statistics Institute (INE), pushing up the annual growth rate to 2.4%, a seven-month high. Similarly, consumer confidence climbed to -2.1 in June, its second-best reading in 11 months, according to data from the European Commission's indicator of economic sentiment (ESI). Retail trade confidence also rose again in June, to a three-month high of 6.3.

Analysis

These bullish figures point to a renewed pick-up in consumer-led domestic demand, following a disappointing first quarter, when private consumption expanded by only 1.5% year on year, its slowest rate of growth in five years. Confidence in the construction sector also soared higher in June, to 6.9, its highest reading since October 2007, at the end of the most recent large construction boom.

These positive demand indicators contrast with less buoyant data on output conditions in the broader industrial and services sectors. Industrial confidence fell to a four-month low of –4.8 in June, and year-on-year growth in industrial production decelerated from 1.8% in April to 1.4% in May, according to seasonal and working-day-adjusted figures from INE. The purchasing managers' index (PMI) for Spanish manufacturing, published monthly by IHS Markit (a research firm), subsequently slumped to 47.9 in June, its lowest reading in six years and signalling its first contraction in over five years. Survey respondents cited tumbling domestic and export orders as the main factors undermining growth.

Service sector confidence has also weakened, according to the European Commission, falling to a five-year low of 11.5 in May. The sector continues to expand, with INE's index for market service sales rising by 4.6% year on year in May, compared with growth of 6.8% in April (and 6.6% and 5.8% in 2017 and 2018 respectively). IHS Markit's services PMI also points to continued expansion in the services sector and it also reported an improvement in sector confidence in June, albeit acknowledging that it remains well below the normal trend. IHS Markit's composite index for Spain's private-sector economy was unchanged in June, at 52.1, consistent with ongoing economic expansion, but at its weakest pace in five and a half years.

Impact on the forecast

We may consider revising slightly upwards our current forecast for private consumption growth of 1.7% in 2019.

State deficit rises by 27% in January-June

September 2, 2019: Fiscal policy outlook

Event

Spain's public-sector deficit has come under renewed upward pressure in response to constrained tax revenue, and higher public-sector wage and pension outlays. The state deficit—the main component of the public-sector deficit—rose by 27% year on year in the first six months of 2019, to €10.5bn, equivalent to 0.84% of GDP. A new government is likely to move quickly to raise taxes.

Analysis

State government tax revenue rose by just 1.2% year on year in the first half of 2019, to €82.1bn. Value-added tax (VAT) increased by 3.1% year on year, to €42bn, while personal income taxes increased by 5% year on year, to €19.2bn. By contrast, corporate taxes declined by 9.6%, to €7.6bn—mostly owing to a €700m tax reimbursement to Telefonica, a telecommunications company.

The draft 2019 state budget contemplated a series of tax rate increases, which were projected to boost the tax intake by 9.5% in 2019, but parliament rejected the budget in February, which in turn triggered April's general election. Should current political negotiations produce a new socialist-led government (our baseline scenario), the incoming executive would be likely to move quickly to follow through on its promises to raise taxes.

On the expenditure side, state budget outlays rose by 3.8% year on year in the first half of 2019. A sharp decline in capital outlays (13% year on year, to €2.3bn), and lower debt service payments (-1.7%, to €12.8bn) helped to contain total spending. Following a decade of harsh contention, however, public-sector wage costs jumped by 7.3% year on year in the first six months, to €9.4bn. This reflected the combination of a renewed pick-up in public-sector hiring and last year's approval of a 2.25% wage increase for the public sector.

For the consolidated budget accounts, the finances of the social security system also remain under pressure. Contributions from workers and employers expanded by an encouraging 7.3% in the first six months of the year, to stand at €61.0bn, but system outlays (mainly pensions) continue to rise inexorably, up by 10% in that period, to €68.5bn. The system shortfall continues to be offset by direct transfers from the general budget.

Impact on the forecast

We maintain our forecast for a government budget deficit of 2.3% of GDP in in 2019.

The PSOE announces progressive government programme

September 6, 2019: Policy trends

Event

On September 3rd the left-wing Spanish Socialist Workers' Party (PSOE) announced its policy programme for the current legislature. The programme is socially and economically progressive, and focuses mostly on measures addressing the quality of employment and pensions, as well as social and gender inequality. Measures to tackle climate change, innovation and Spain's foreign initiatives are also included.

Analysis

Significant measures included in the PSOE's policy programme comprise the derogation of some aspects of the 2012 labour market reform, such as the causes and procedures required to make substantial modifications to working conditions. Other labour market measures include further gradual raises of the minimum wage until it reaches 60% of the average salary, a review of the acceptable causes for redundancies and an increase in the coverage of unemployment insurance.

According to the programme, state pensions would increase in line with consumer price inflation. The link to inflation was removed in a pension reform in 2013, under the government of the conservative People's Party (PP), and from 2014 to 2017 pensions increased by 0.25% per year (pensions have risen at 1.6% per year in 2018-19 owing to government decrees).

The PSOE wants to protect pension benefits in the constitution, although it is unlikely that the party will muster the necessary parliamentary support. Regardless, with the social security system already running structural deficits together with the ageing of the population, pension spending poses a substantial risk to the medium-term sustainability of the public finances.

In part to pay for increased spending in several areas, the PSOE aims to raise a number of taxes for higher earners and large firms, and further tackle informality. Large companies would have to pay a minimum tax rate of 15% (banking institutions and energy companies would be subject to a higher 18%), and financial transactions would be taxed at 0.2% of equity price. Small- and medium-sized enterprises would positively see a reduction in their tax rates to 23%, from 25%. A new tax would be added for digital services. Given the low interest rate environment and weak banking sector profitability, a higher tax on the banking sector may prove to be problematic.

Impact on the forecast

The announced policy measures are in line with our view that a shift towards more socially and economically progressive policies is likely in the coming years.

ECB goes big on stimulus policy package

September 13, 2019: Monetary policy outlook

Event

On September 12th the European Central Bank (ECB) announced a substantial stimulus package that includes a cut to the deposit rate, enhanced forward guidance, another round of quantitative easing (QE2) and more favourable terms for the third round of cheap loans, known as targeted longer-term refinancing operations (TLTROs).

Analysis

The ECB's monetary policy stance has been significantly eased. The deposit rate was cut by 10 basis points, to –0.5%. The forward guidance was adjusted, with the ECB governor, Mario Draghi, emphasising that rates will remain low until the inflation outlook converges to the target of "close to, but below, 2%", in line with the ECB's mandate—rather than until mid-2020, as previously stated. The QE2 programme will start in November, at a monthly €20bn, and will run "for as long as necessary", until shortly before the ECB starts raising rates.

The QE2 monthly volume is below what we were expecting, but the programme's open-ended nature makes it an extremely dovish move. The ECB also introduced a two-tiered deposit system, whereby a portion of banks' excess reserves held at the ECB is exempt from paying the –0.5% rate**.** The terms of the TLTROs-III—to start this month—were also modified: interest rates can now go as low as –0.5% if the bank engages in sufficient lending activity, and the loan maturity was increased to three years, from two previously.

We believe that the package is good news for the euro zone's economic and institutional outlook. First, the introduction of a numerical inflation figure in the ECB's forward guidance, instead of a specific time horizon, boosts the bank's credibility. Second, the QE2 design sends a strong signal to governments that rates will remain ultra-low until at least 2021—the ECB forecasts inflation to average 1% in 2020 and 1.5% in 2021—which should incentivise governments to increase their fiscal spending.

Two other technical points are important. The two-tier deposit system—a long-time demand from more hawkish member states, such as Germany—will temper political opposition to a negative deposit rate, as it mitigates the hit to banks' profitability. Such a system opens the way for a "low for longer" situation and for additional rate cuts in future. The more favourable TLTRO-III terms will mostly benefit south European countries, ensuring that funding remains extremely favourable for these nations' impaired banking systems.

Impact on the forecast

We maintain our forecast that rates will remain on hold until at least mid-2021.

Analysis

EIU global forecast - Central banks ease monetary policy

August 21, 2019

Amid slowing global growth and rising trade tensions, the world's major central banks are easing monetary policy. In June Jerome Powell, the chairman of the Federal Reserve (Fed, the US central bank), stated that the Fed would respond "as appropriate" to trade developments, causing financial markets to price in a growing likelihood of rate cuts in 2019. The Fed has so far followed up with in initial 25-basis-point cut in July, and we expect it to cut rates two more times, in November and in March. It is possible that the Fed will cut rates again as soon as September, but Mr Powell has cautioned that the July rate cut should be seen as a "mid-cycle adjustment" rather than as the start of a prolonged easing cycle. Mr Powell's cautious rhetoric suggests that the Federal Open Markets Committee (the Fed's monetary policy committee) is divided regarding the need for further easing, given the strength of the economy.

The European Central Bank (ECB) is also gearing up to respond to slowing growth in the euro zone; reflecting more recent communication by the ECB, we expect it to cut its deposit rate and to announce a new round of quantitative easing in September. Finally, we expect the Bank of Japan (BOJ, the Japanese central bank) to keep monetary policy ultra loose and to maintain its quantitative easing programme until at least 2021, despite calls from the banking sector to normalise policy.

US-China trade tensions appear to have stabilised—for now

Monetary policy stimulus will help to stabilise global growth; we expect the global economy to expand by 2.5% next year (at market exchange rates), compared with a forecast 2.4% in 2019. However, renewed trade tensions could derail this mild outlook. In August, following an inconclusive round of trade talks in late July in Shanghai, China, Donald Trump, the US president, published on a social media platform, Twitter, that on September 1st the US would impose a 10% tariff on the remaining US$300bn of Chinese imports that had not yet been targeted (ten days later the US administration announced that it would postpone the implementation of part of these tariffs until mid-December).

We expect that the 10% tariff will be implemented, which will force China to retaliate against the US. However, we also believe that there will be no further increase in tariffs, given the economic and political risks of such a move as the US heads into an election year. Crucially, the US decision to postpone the implementation of tariffs shows that Mr Trump is concerned about the impact of increased tariffs on consumers ahead of the Christmas shopping season (which usually starts in mid- to late November). This signals that Mr Trump might be concerned about the economic impact of the US-China trade war as the November 2020 US presidential election approaches.

A global currency war is a worst-case scenario

If the US does continue to increase tariffs on Chinese imports significantly (not our core scenario), it risks setting off a retaliatory spiral that is increasingly likely to extend to non-tariff measures. The risk of this scenario occurring is shown by the consequences of the recent 10% tariff announcement; the Chinese government responded by letting the renminbi depreciate to less than Rmb7:US$1, a major psychological threshold for investors, and the US Treasury in turn designated China a "currency manipulator", raising the prospect of Chinese retaliation.

In the worst-case scenario of a full-blown trade war, this could lead to successive rounds of competitive currency devaluations that would draw in most other central banks around the world. The immediate impact would be that financial markets will be destabilised; in the medium term, the global monetary easing caused by central banks lowering the value of their currencies could lead to an unexpected upsurge in global inflation and a sharp increase in global interest rates. However, this scenario is mitigated by China's desire not to destabilise the global financial system through a sharp devaluation of the renminbi (against the US dollar) and by the fact that China has other, milder retaliatory options, including pressure campaigns against foreign companies operating in China or restrictions on the export of rare earth metals.

The US-China conflict has the potential to do lasting damage to global trade

Even if US-China trade tensions were to remain contained, it is not clear how quickly or easily economic relations between the two countries can be repaired. There is an increasingly bipartisan view in the US that the two countries are engaged in strategic rivalry, particularly in the field of information and communication technology (ICT), and growing nationalist, patriotic sentiment in China makes it difficult for the Chinese government to offer any meaningful concessions. As the conflict between the world's two largest economies hardens, other countries will come under increasing pressure to choose sides. This could lead to an effective split in the global trade system between countries leaning towards China and those allied with the US.

World economy: Forecast summary

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (%)										
World (PPP[a] exchange rates)	3.5	3.4	3.3	3.7	3.5	3.1	3.3	3.5	3.6	3.5

World (market exchange rates)	**2.8**	**2.8**	**2.5**	**3.1**	**2.9**	**2.4**	**2.5**	**2.9**	**2.9**	**2.9**
US	2.5	2.9	1.6	2.2	2.9	2.2	1.7	1.9	2.0	1.8
Euro area	1.4	2.0	1.9	2.6	1.9	1.1	1.4	1.7	1.7	1.7
Europe	1.9	2.0	1.9	2.7	2.1	1.2	1.7	1.9	1.9	2.0
China	7.3	6.9	6.7	6.8	6.6	6.2	6.1	5.8	5.5	5.2
Asia & Australasia	4.4	4.5	4.5	4.9	4.5	4.2	4.1	4.3	4.3	4.1
Latin America[b]	1.4	0.1	-0.3	1.8	1.6	1.0	1.5	2.6	2.7	2.7
Middle East & Africa	2.8	2.3	4.8	1.4	1.2	1.2	2.4	2.9	3.2	3.3
Sub-Saharan Africa	4.6	2.7	0.8	2.3	2.3	2.2	2.4	3.8	4.2	4.4
World inflation (%; av)[b]	**3.4**	**3.0**	**3.1**	**3.2**	**3.5**	**3.7**	**3.3**	**3.2**	**3.2**	**3.0**
World trade growth (%)	**2.9**	**2.0**	**2.1**	**5.4**	**4.4**	**2.9**	**3.4**	**3.7**	**3.9**	**4.0**
Commodities										
Oil (US$/barrel; Brent)	98.9	52.4	44.0	54.4	71.1	67.7	62.0	67.0	73.2	75.0
Industrial raw materials (US$; % change)	-5.1	-15.2	-2.2	20.2	2.2	-5.4	3.3	3.4	3.0	0.6
Food, feedstuffs & beverages (US$; % change)	-5.3	-18.4	-3.5	-1.0	1.6	-4.2	4.5	3.6	0.2	0.8
Exchange rates (av)										
¥:US$	105.9	121.0	108.8	112.1	110.4	108.1	107.7	104.9	100.5	96.1
US$:€	1.33	1.11	1.11	1.13	1.18	1.12	1.15	1.19	1.23	1.24

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: The Economist Intelligence Unit.