

## Spain's growth rate still stable

The Spanish economy grew at the same pace as the last quarter and that's in sharp contrast to yesterday's disappointing figures for the Eurozone as a whole



Spanish Prime Minister, Pedro Sanchez, is still trying to form a government

# 0.6%

Spanish 3Q growth

2.5% YoY

### Good GDP figures, but a slowdown is still expected

The Spanish figures are good, with the economy growing at 0.6% QoQ (2.5% YoY) in the third quarter, the same pace as in the second. Given Tuesday's figures from the Eurozone as a whole, things didn't seem to be boding well for Spain. The Eurozone economy slowed to a growth rate of 0.2% QoQ in the third quarter from 0.4% in the previous one, and with Spain being the fourth largest economy in the Eurozone, this could have implied much slower growth in Spain given a weaker external environment, as the Eurozone is the largest export destination for the country. On top of that, survey indicators in the third quarter continued their downward trend; the Purchasing Managers' Index (PMI) has notably dropped quite sharply in recent months.

## Don't forget politics

And we cannot forget about politics. Even though the economy is growing at a stable rate, 'stable' is not a word we can use to describe the current political situation which brings a lot of uncertainty to the economy, not least the approval of the 2019 budget and the Catalan situation which are two problems that are actually intertwined. As for the 2019 budget, we can now be quite sure that it will not be approved before the end of the year and so will be delayed. This will be the third time in a row that the budget is held up; the 2017 budget was delayed because of elections held in November 2016 and the 2018 budget was delayed as there was not enough support in parliament.

Prime Minister Sánchez reached an agreement with the rival Podemos party, but still needs the support of other parties to have a majority for it in Parliament. Sánchez is mainly looking at the Catalan and Basque regional parties in order to get a budget through parliament. But getting their support is not easy. Currently, Catalan parties demand a binding referendum on independence, something that the current constitution does not allow.

So given the political issues and the weaker external environment, we continue to think the Spanish economy will slow. We forecast an annual growth rate of 2.6% in 2018 and 2.0% in 2019, a clear deceleration of economic activity given the more than 3% growth since 2015.